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The Chartered Institute of Loss Adjusters
Associateship Examination 2015 (April)

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

- a) Explain the difference between Contribution calculated on the Independent Liability basis and Contribution calculated on the Sums Insured basis. (8 Marks)
- b) The agreed loss is £15,000. The Sum Insured against Policy A is £20,000 and against Policy B the Sum Insured is £60,000. Calculate the Contribution payable by each Policy on the basis of each Insurer's Independent Liability. (8 Marks)
- c) The agreed loss is £15,000. The Sum Insured against Policy A is £12,000 and against Policy B the Sum Insured is £35,000. Calculate the Contribution payable by each Policy on the basis of each Insurer's Independent Liability. (8 Marks)
- d) Using the same figures as in b) and c) above, calculate the Contribution payable in each case when using the Sums Insured basis. (8 Marks)

NB: IN THE ABOVE EXAMPLES, ALL WORKINGS USED TO CALCULATE THE APPROPRIATE CONTRIBUTIONS MUST BE SHOWN.

- e) You are dealing with a claim for fire damage to commercial premises where the Policy is subject to a 10% Co-Insurance Clause. Explain how this clause would operate when adjusting the claim and why a clause of this type would normally be applied to the Policy. (8 Marks)

(40 MARKS)



QUESTION 2

a) When dealing with a claim under a typical Business Interruption Policy, what do you understand by the following terms:

1. Additional Increased Cost of Working
2. Denial of Access Extension
3. Declaration Linked Policy
4. All Other Circumstances Clause.

(4 Marks each)

b) Malicious Damage has occurred to a number of lock-up commercial units in an arcade of similar units in a busy suburban area. The damage includes smashed glazing and daubing of graffiti. You are instructed by your Principals to deal with claims for both Material Damage and Business Interruption for three of the units. These are:

1. A takeaway sandwich shop
2. A ladies nail bar
3. An antiquarian bookseller.

Pending renewal of the glazing and removal of debris etc, each of the units is closed for three days following the incident, which occurred after trading hours on a Monday night.

In dealing with the Business Interruption claims, explain what considerations will apply to calculating and validating turnover lost by each of these separate businesses as a result of their premises being closed during this three day period.
(18 Marks)

c) Following fire damage, explain briefly how you would deal with any salvage from:

1. A retail furniture store
2. A ladies clothing retailer.

(6 Marks)

(40 MARKS)



QUESTION 3

a) Explain the following terms:

1. Day One Reinstatement Memorandum
2. Contract Price Clause
3. Professional Fees Clause
4. Appreciation in Value Clause (Escalator).

(4 Marks each)

b) Outline the main provisions of the following in the context of an insurance claim:

1. Party Wall etc Act 1996
2. Consumer Insurance (Disclosure and Representations) Act 2012
3. The Construction (Design and Management) Regulations 2007.

(18 Marks)

c) You are handling a claim for an escape of water in a bathroom. The ceiling has a textured covering and you suspect it may have an asbestos content. Explain what steps you should take to protect Insurer's interest and that of the Policyholder.

(6 Marks)

(40 MARKS)



PART 2
ANSWER TWO QUESTIONS ONLY

QUESTION PC 1

You are appointed by Insurers in connection with a fire that occurred yesterday at a motor vehicle sales (used vehicles) and repair workshop. The business, “Jones Vehicles Ltd”, is insured under a Motor Traders Combined Policy.

The insurance details are as follows:

Inception date 1 st December 2014	
Buildings including tenant’s decorations and improvements	
£20,000	
Plant and machinery	£50,000
Stock, excluding vehicles	£5,000
Motor vehicles	£35,000
Loss of profits (12 months)	£108,000
Employers’ liability - estimated wages	£60,000
Public liability - indemnity limit	£2,000,000

The policy benefits from the reinstatement memorandum and is subject to average.

The local television news network has reported that Mr Jones was welding an exhaust bracket when the car he was working on exploded, resulting in extensive damage to the insured premises and the adjacent building which is in separate ownership. Fortunately, Mr Jones and his assistant mechanic escaped with only superficial injuries and were discharged from hospital within a few hours following a full medical examination.

Describe the steps you should take, and why you are taking them, from Day 1 to completion of the claims:

- a) To investigate cause and establish whether a valid claim arises. (15 Marks)
- b) To validate and consider savings in relation to business interruption. (10 Marks)
- c) To quantify the admissible claim(s).



(15 Marks)

(40 MARKS)

QUESTION PC 2

You are instructed to deal with a claim for storm damage that has occurred at premises occupied by furniture manufacturers. The premises comprise a detached industrial type unit of steel frame construction clad and roofed with profile steel sheet. This accommodates the various manufacturing and stock storage facilities. There is separate office accommodation in a two storey brick-built annexe to the front of the building.

The Policy issued by your Principals covers the building, stock and all trade contents, including office equipment and furnishings, against the usual range of perils. For the purposes of this question, all the sums insured can be deemed to be adequate.

As a result of your investigations, the following issues have been identified.

- i) The Insured occupy the building as tenants. On examining the lease, you find that it is the Landlords' responsibility to insure the building against the usual range of perils and you also find that they are responsible for external maintenance. On contacting the Landlords, you ascertain that there is separate building insurance in force and the Landlords, being aware of the damage to the premises, have already provided notice of claim to the Insurers involved. The cover is arranged with other Insurers and not with your Principals.

From your discussions with the Insured, it would appear that there was a misunderstanding on their part, and they believed, that in terms of the lease, they were required to arrange the necessary building insurance.

- ii) Your Principals' Policy incorporates a number of warranties. One of these is a stillage warranty which requires that all finished stock must be stored on pallets or similar at least 30 cm above floor level. You believe that this warranty has been applied due to the presence of a nearby water course and the potential risk of flooding from that particular source.

Another warranty contains specified requirements regarding the number and positioning of fire extinguishment appliances and their maintenance.



During the storm, various roof sheets were dislodged by high winds and, due to the accompanying torrential rainfall, a considerable volume of rainwater cascaded into the premises and directly onto a quantity of finished product. This has all been damaged beyond satisfactory restoration.

None of the warranties referred to above has been complied with. When you draw this to the Insured's attention, they state that they were never made aware of these warranties, the cover having been arranged through their brokers so they had no direct contact with Insurers.

- iii) A substantial volume of rainwater gravitated into the separate office accommodation, damaging floor coverings and various equipment. On investigation, you discover that this results from lack of maintenance of the eaves guttering which over a period of time has become blocked with debris and leaves. You believe that, if the guttering had been properly maintained, this would adequately have dealt with the volume of rainfall at the time and that no damage would have occurred within the office accommodation.

Explain how you should deal with each of the above issues and what recommendations you would submit to your Principals.

(30 Marks)

- iv) The stock is damaged beyond satisfactory restoration but still possesses a salvage value. What is meant by the term "Salvage" and how should you deal with this during the course of the claim?

(10 Marks)

(40 MARKS)

QUESTION PC 3

- a)
- i) Set out a standard formula for gross profit.
 - ii) Explain in brief terms what is meant by "savings" in relation to a Business Interruption Policy.
 - iii) Explain what is meant by denial of access and loss of attraction in relation to a Business Interruption Policy.

(5 Marks each)

- b) Contrast reinstatement as provided for under the operative clause of the policy and reinstatement under the Reinstatement Memorandum.



(5 Marks)

- c) Following a fire, the Insured elects to invoke the Reinstatement Memorandum in respect of a major item of plant costing £500,000; however on other subsidiary plant they opt for an indemnity settlement. How would you calculate the value at risk in respect of Plant and Machinery for reinstatement average?
(5 Marks)
- d) What do you understand by Tenant's Improvements and when would these fall to be dealt with under the Landlord's buildings policy?
(5 Marks)
- e) What do you understand by the terms "deductible" and "aggregate deductible".
(5 Marks)

A claim was settled for £1m, after an adjustment for average of £475,000 and after the deduction of the policy excess of £25,000. You recover £750,000 in the recovery action against the third party. Advise on how this sum is apportioned between Insured and Insurer, including your reasons.

(5 Marks)

(40 MARKS)