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The Chartered Institute of Loss Adjusters
Associateship Examination 2016 (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

1. Discuss and explain the following aspects of the cover normally available under a typical Business Interruption Policy:

- a) The difference between Increased Cost of Working and Additional Increased Cost of Working where the latter extension is included as part of the policy cover
- b) The circumstances under which indemnity under the Denial of Access extension would be available
- c) The circumstances under which indemnity would be available under the Professional Accountants clause
- d) The application of the Material Damage Proviso.

(20 Marks)

2. When dealing with claims for business interruption involving the following trades/professions, explain briefly what measures might correctly be taken to mitigate the extent of the loss. In the case of the first three claim scenarios, the premises are rented whilst in case d) (the restaurant) the premises are owned by the Insured but are insured elsewhere.

- a) Retail Grocery Store - estimated interruption period seven days
- b) Tattoo Parlour - estimated interruption period three weeks
- c) Solicitors' offices - estimated interruption period three months
- d) Licensed Restaurant - estimated interruption period twelve months.

(12 Marks)



3. Fire damage has occurred within a detached two storey commercial building which provides office accommodation. The building is owned by the Insured and they occupy the whole of the building. The fire originated in the staff kitchen, where extensive damage occurred, the remainder of the building being mainly affected by smoke contamination. Your Principals' Policy includes the building and they appoint you to deal with the claim.

The Insured are represented by Loss Assessors. Specifications and costings for the necessary reinstatement were agreed with the Loss Assessors and the work has now been completed on the approved basis. Your Principals have discharged the agreed claim costs and have closed their file.

Three months later, you are contacted by the Assessors who tell you that the Insured are concerned about complaints from their staff as a result of what appears to be continuing smoke odour. This appears to originate within the roof void and the Assessors suggest that this results from slight smoke soiling to insulating materials, internal roof felting and structural roof timbers. The Assessors maintain that whatever remedial works are necessary to eliminate the residual smoke odours should be carried out as part of the claim.

Having carried out your own enquiries, you agree that there may be some lingering smoke odour but this has not degraded or impaired the functionality of the areas affected. You do not therefore consider that any further works are required. This is challenged by the assessors, who have indicated that they will pursue the matter further.

Outline briefly what recommendations you would make to your Principals.

(8 Marks)

40 MARKS



QUESTION 2

1. Define and explain a warranty when applied to a contract of insurance

(4 Marks)

2. Discuss briefly the effect of breach of warranty when dealing with a claim under a commercial policy.

(4 Marks)

3. Within the context of a contract of insurance, what is meant by the following terms:

- a) Reinstatement Memorandum
- b) 20% Co-Insurance Clause
- c) Contract Price Clause.

(12 Marks)

4.a) For several years, the Insured, Mr Smith, has arranged his household insurance, covering Buildings and Contents, with ABC Insurance Company. The policy renewed each year on 20th June. Mr Smith was not satisfied with the premium quoted for the renewal due on 20th June 2015, no losses having been incurred and no alterations having occurred to the risk, and obtained more competitive terms from XYZ Insurance Company with whom cover was effected as from 20th June 2015.

On 16th June 2015, Mr Smith and his family went away on holiday, having ensured that the premises were fully secured (no intruder alarm is installed). They returned home on 24th June 2015 and discovered that a burglary had occurred, thieves having forced open the rear entrance door to achieve access and then stealing jewellery and other easily portable personal effects. The Insured immediately reported the incident to the Police, who carried out enquiries but found no evidence to identify the culprits. They were also unable to confirm exactly when the incident occurred, none of the Insured's neighbours having heard or seen anything untoward and there being no CCTV or other evidence available to assist them. In their report, the theft is, therefore, recorded as having occurred some time between the 16th and 24th June 2015.

There is no suggestion that the incident is anything other than fortuitous and genuine so far as the Insured is concerned.



Mr Smith initially submitted a claim to ABC Insurance Company. They have told him that they are unable to assist since their policy had already lapsed by the time the incident was discovered. He then refers his claim to XYZ Insurance Company, who appoint you to act as their Adjusters.

What advice should you provide to your Principals and the Insured in relation to Policy Liability?

(10 Marks)

b) In January 2015, your Principals instructed you to deal with a claim submitted for dry rot infestation within a private dwelling, their policy covering the Buildings and Contents against the usual range of perils. Following your investigations, it was established that the dry rot was not associated with the operation of any insured peril and the claim was declined. You explained to the Insured that they would need to remedy the dry rot infestation at their own expense.

A few months later, the premises are damaged by fire. Your Principals instruct you to deal with this further claim and, following investigation, Policy Liability is admitted.

Surveyors are appointed on the Insured's behalf to deal with the necessary repair/reinstatement. They submit a repair schedule for your approval and you note that this includes areas affected by the earlier dry rot infestation. In discussing this issue with the Surveyors, they explain that, due to their financial circumstances, their clients were not in a position to carry out reinstatement of the dry rot damage prior to the fire. The cost of this work had been estimated at £5,000. They also explain that, to satisfactorily reinstate the fire damage, it will be necessary to include the areas affected by the dry rot that had been included within the earlier claim. You then refer to your own in-house surveyors for further advice and, on completion of their review, they confirm that it is not possible to reinstate the fire damage in isolation and the remedial scheme must necessarily include the areas previously affected by dry rot.

What advice should you provide to your Principals regarding Quantum?

(10 Marks)

40 MARKS



QUESTION 3

1. Outline briefly the main provisions of the following legislation and explain how it might be relevant to the adjustment of a property claim:

- a) Rehabilitation of Offenders Act 1974
- b) Fires Prevention (Metropolis) Act 1774
- c) Riot (Damages) Act 1886
- d) Consumer Insurance (Disclosure and Representations) Act 2012

(20 Marks)

2. What advice would you provide to your Principals in the following scenarios:

- a) You are appointed to deal with a claim for escape of water which has occurred at a detached two storey house. It originated in the bathroom on the first floor when the connection to the cold feed to the washbasin failed due to normal wear and tear. The areas mainly affected are the lounge and entrance hall. Prior to your involvement, disaster and restoration contractors had already been appointed by your Principals in accordance with delegated authority arrangements. On attending the premises, their personnel deemed that the carpet in the entrance hall, which extended to the staircase and landing, was damaged beyond restoration as was the sofa forming part of a three piece suite in the lounge. They informed the Insured, Mr Jones, that these would be removed for disposal. They apparently also told the Insured that “the claim would cover the cost of replacing the complete three piece suite and also the undamaged carpet if a match was not possible”.

The Policy, which had been in place for three months prior to the incident, is subsequently avoided since your enquiries establish that Mr Jones had supplied incorrect and inaccurate information to various questions that were put to him when applying for cover. You inform him that, in the circumstances, your Principals cannot assist him financially. In response, Mr Jones points out that, due to the actions of the contractors, he is left with the remains of a three piece suite which he regards as useless and carpets which, it has since been shown, can no longer be matched. He states that, if he had been aware that his claim would not succeed, he would have



retained both the carpet and the sofa and attempted to restore them. He asks what your Principals intend to do to resolve the position. Explain the correct outcome.

(10 Marks)

- b) You are instructed to deal with a claim for fire damage which has occurred at a small detached bungalow. Your Principals' policy covers both Buildings and Contents. Due to the extent of the damage, the property will not be fit for habitation until permanent repairs are completed.

The Insured, who are an elderly retired couple, own a touring caravan which they park on the driveway to their bungalow. In discussions with your Principals prior to your involvement, they have indicated that they would be quite happy to live in the caravan until the building repairs are completed. On meeting the Insured at your initial site visit, you discuss these arrangements with them and find that they are quite content to remain in the caravan. You do explain to them that, should it become inconvenient or uncomfortable to remain in the caravan, particularly since building repairs will continue through the winter months, they should contact you again to discuss other possible arrangements.

About one month later, your Principals are contacted by the Insured's son, who normally works overseas but has returned to visit his parents. The son, who is now authorised to deal with the claim on behalf of his parents, alleges that your Principals have taken advantage of an elderly couple by not offering "proper alternative accommodation", leaving them in a damp caravan during the winter (exacerbating certain health problems of which you were not aware), exposing them to the noise and disturbance associated with the on-going building works and not offering them any compensation for providing their own caravan. State the advice you should provide.

(10 Marks)

40 MARKS



QUESTION PC 1

You are instructed by Insurers to deal with a fire claim under a Policy they have issued to Mr J Smith covering a building on a reinstatement basis. Mr Smith owns the affected building and also occupies the ground, first and second floors in connection with his business, Sports Clothing Ltd. Mr Smith and his wife are the sole directors of that company, which is insured by the same insurer under a policy issued to Sports Clothing Ltd for machinery, plant and stock. The insurer asks you to deal with that claim also.

There is serious fire damage to the building and to the machinery, plant and stock which necessitates extensive building repairs and replacement of many items of equipment. Investigations confirm that the fire has been caused negligently by the tenant of the basement area who occupies the premises under a formal lease from Mr Smith.

- 1) Explain the subrogation position including comments on the possible relevance of the following two cases:
 - (i) Mark Rowlands Ltd v Berni Inns Ltd (1984)
 - (ii) Harbutt's Plasticine Ltd v Wayne Tank and Pump Co Ltd (1970)

(20 Marks)

- 2) The buildings sum insured is on a "Declared Value" basis. Explain what this means and the basis upon which any underinsurance is dealt with.

(10 Marks)

- 3) Set out, in summary form, the information you would require to carry out a stock reconciliation exercise.

(10 Marks)

40 MARKS



QUESTION PC 2

This question relates to a stock loss. However, you are **NOT** required to draw up or explain a stock reconciliation.

The policyholder is an importer of power tools and retailer (to the trade and the public) of tools and associated accessories. Stock is purchased in the UK, Europe and the USA. Purchases made in Europe are in Euros and those from the USA are in US Dollars. All foreign purchases are made via Letters of Credit. The purchase price in the USA is on a CIF (cost, insurance, freight) basis to the UK port of landing. European purchases are CIF to the policyholder's warehouse.

There has been a serious fire which has destroyed the major part of the warehouse and a significant portion of the stock. Some stock has been salvaged, but cannot be sold by the policyholder as prime merchandise.

1. Assuming that the quantities destroyed are agreed, explain the basis on which you will value the stock. What factors affecting value will you include in the claim and why?

(20 Marks)

2. Goods to a sound value (that is the replacement cost and having taken any damage into account) of approximately £100,000 are salvaged. Explain what options are available for disposal of the salvage and the advantages or disadvantages of each option.

(10 Marks)

3. Explain how the "Branded Goods" Clause operates.

(5 Marks)

4. The total value of all the stock destroyed or damaged is agreed at £500,000. The best salvage offer that you receive in respect of the salvaged stock is £40,000. You establish that the sum insured in respect of stock is inadequate and Average reduces the claim by 25%. Explain how you would calculate the settlement of the stock claim under the policy.

(5 Marks)

40 MARKS



QUESTION PC 3

You have been appointed to deal with a fire loss that occurred at a seaside “fish and chip” restaurant and take-away on 31st May 2015. The fire severely damaged the Insured’s frying range and ancillary equipment. There was smoke damage to varying degrees throughout the premises and the premises will be closed until the repairs are completed. The Insured own the premises and their Comprehensive Restaurant Combined 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”.

- 1) What enquiries should you make in relation to cause and why?
(10 Marks)

- 2) The manufacturers of the range advise you that the fume extraction capability of the existing ducting above the frying range does not meet the current regulations applying to the “Control of Cooking Fumes in the Workplace” and that consequently a modification is required which will cost an additional £3,500. How should you approach this aspect of the claim?
(10 Marks)

- 3) The insured advise you that their staff are prepared to clean down and redecorate the smoke contaminated areas at a cost that will be calculated using their normal hourly wage rate, plus the cost of materials. This represents an approximate saving of 20% on the figure put forward by a local contractor. How should you deal with this request?
(10 Marks)

- 4) 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 2014	
	£	£
Turnover		200,000
Opening stock	2,200	
Purchases	80,200	
Less closing stock	<u>(2,400)</u>	
Cost of sales	80,000	
Staff and casual wages	<u>15,000</u>	<u>95,000</u>
Gross profit		<u>105,000</u>

The Insured advise you that, in the period leading up to the fire, weekly takings had varied between £3,000 and £3,400, with an average of £3,200.

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)
40 MARKS