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The Chartered Institute of Loss Adjusters

Associateship Examination 2016 (April)

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.

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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 sometime 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



PART 2
ANSWER TWO QUESTIONS ONLY

QUESTION PD1

- A. You receive instructions from your Principals to deal with a claim that involves water ingress into a detached two storey private dwelling located in a rural location. At that stage, the only information available is that the source of the water appears to be external and that a considerable volume has accumulated throughout the whole of the ground floor. You are told that the Policy is subject to an excess of £250 for all perils, including storm, apart from flood, where a higher excess of £5,000 applies.

Following your site visit and further enquiries, it is established that prolonged and heavy rainfall had occurred in the area during the previous three days. Run-off water from adjoining fields had caused a narrow stream to burst its banks and in addition surface water drains had become overwhelmed due to the prolonged rainfall. Substantial volumes of water accumulated in the road outside and ingressed into the house.

Your Principals accept the claim but wish you to confirm the correct excess to apply. Advise them to this effect with appropriate reasoning.

(10 Marks)

- B. A domestic property has been damaged by flood and will not be habitable for at least six months, pending drying out and permanent repairs to all ground floor areas.

Whilst the house is unoccupied, it becomes infested with rats that have apparently been driven from their normal nesting sites by the flooding. They spread to the originally undamaged accommodation on the first floor where they then damage joinery and service installations by chewing and gnawing. It is necessary for them to be removed by specialists before repairs can commence.

Contractors sourced by the Insured include the damage caused by the rat infestation in their quotation for reinstatement. In addition, the Insured seeks to recover the cost of having the rats removed. The Policy does extend to include Accidental Damage but this excludes, amongst other things, damage by vermin. You, therefore, explain to the Insured that the costs associated with the rats cannot be included. This is challenged by the Insured who suggests that the infestation only occurred as a direct consequence of the flood and that all the additional costs incurred should be recoverable from Insurers. How should you respond?

(10 Marks)



- C. You have been appointed to deal with a claim for a domestic property where extensive damage has occurred as a result of a burst pipe. Your Principals' policy covers the Buildings whilst the contents are insured separately. The property will not be fit for habitation until repairs are completed and the Insured and his family require alternative accommodation. It is agreed with the adjusters representing the contents Insurers that your Principals will finance the costs for alternative accommodation in the first instance, subject to contribution from their Principals.

Costs against alternative accommodation are ultimately quantified at £15,000 which as detailed above will have been paid in full by your Principals.

Your Principals' Policy includes a Sum Insured of £25,000 for Alternative Accommodation. The corresponding Sum Insured under the Contents Policy is £10,000.

How should contribution normally be calculated in these circumstances and what amount should be requested from the contents Insurers? Show how this is arrived at.
(10 Marks)

- D. Following high winds and heavy rainfall, a claim is submitted to your Principals for damage to the flat felt roof of a single storey extension. Your Principals' policy covers both the Building and Contents, including Accidental Damage. The claim is for the cost of renewing the felt covering, redecorating the ceiling and cleaning the carpet and soft furnishings. In presenting the claim, the Insured include a brief report from their contractor which suggests that the edge of the roof covering may have been uplifted by high winds.

On inspection, you note that the felt roof covering has degraded due to normal wear and tear and would in any event be ready for renewal. The Insured tell you that there have been no previous problems of rainwater ingress prior to the incident and you see no evidence to dispute this.

What recommendation should you provide to your Principals?

(10 Marks)
40 MARKS



QUESTION PD2

A. You are instructed by the Helpful Insurance Company to deal with a claim for impact damage to a private dwelling. They insure both the building and its contents under a typical household policy. The damage was caused by an out of control motor vehicle. The impact initially damaged part of the front boundary wall and the vehicle then careered across the front lawn before impacting and severely damaging the detached garage, which has partially collapsed. Initial enquiries establish that the vehicle was reported by its owner to have been stolen, but the person driving fled the scene and has so far not been traced.

i) Detail briefly the enquiries you should carry out at the time of your initial site visit.

8 Marks

ii) How should you establish whether the Sums Insured against both Buildings and Contents are adequate?

(6 Marks)

iii) In relation to the Buildings claim, approximately 20% of the boundary wall will need rebuilding. However, matching bricks are no longer available.

The wall is of single brick construction and approximately 2m high. Whilst repair is permissible, if the wall is demolished and rebuilt to the same height it will need to be of double brick (225mm) construction to comply with the requirements of the Local Authority.

The Insured is adamant that he will not accept repair of the wall with non-matching bricks and insists that the wall must be rebuilt “so that he is restored to the same position he was in prior to the incident”. How should you deal with this situation?

(8 Marks)

iv) Explain briefly how you should validate the claim for the damaged garage and how you would establish quantum.

(8 Marks)

v) The claim includes the following items:

Flagpole and sun dial on the front lawn

Cans of paint stored in the garage used in connection with the Insured’s business (Painter and Decorator)

Angling equipment being stored for a relative whilst they are moving house.

Advise whether cover would be available for any of the above and, if so, against which section of the Policy would they be allocated.

(10 Marks)



- vi) Discuss very briefly whether there would be any potential recovery available in this type of circumstances.

(8 Marks)
40 MARKS

QUESTION PD3

- A. You are instructed to deal with a claim that has been notified for the theft of jewellery from the Insured's home. The Insured is elderly and in the early stages of dementia and can become rather forgetful. The Policy cover is for general contents under a typical household policy but includes one specified item, a ladies' gold watch, which is covered on an All Risks Basis with a Sum Insured of £3,000. On attending at the property, you are told by family members that the claim will comprise an assortment of jewellery such as rings and necklaces and including the Specified Item.

All these items were normally kept in a jewellery box on the dressing table in the Insured's bedroom. However, even before the onset of her illness, the Insured had a habit of concealing items of jewellery elsewhere in the house for safekeeping. This did not normally cause any significant problem since family members were aware of where such items would normally be hidden and were able to retrieve them.

On this occasion, it had been noticed, about three months earlier, that the more valuable items of jewellery, including the gold watch, were missing from the jewellery box. Initially, the family were not concerned, believing simply that these had been concealed somewhere else in the house by the Insured. However, having checked the usual hiding places and then thoroughly searched the whole house, none of the items could be found. There was no evidence of forced entry having occurred at any time, and the only non-family members who had had access to the house were carers who, in view of the Insured's illness, had started to visit on a daily basis four months earlier. None of the family can recall precisely when all the missing items were last seen, apart from the gold watch which the Insured had worn at her birthday party in the house six months ago.

The family have reported the loss to the Police who, on the basis of the information currently available, have declined to record this as a theft. They did however mention that, in the last few months, there has been a spate of incidents in the area where persons masquerading as "Water Board Officials" have attempted to gain entry, mainly to houses occupied by the elderly to "check the supply". On some occasions, they have been allowed inside and money and other easily portable property has been stolen. The family have asked the Insured whether such persons have attempted to gain entry into her own home but she is sure that they have not.

As all the items are missing and cannot be found, the family suggest that the only explanation is that they have been stolen, and the claim is submitted accordingly.

Detail what enquiries you should carry out and what advice you would provide to your Principals regarding Policy Liability.

(16 Marks)



- B. Following a substantial theft loss, you receive a claim submission from the Insured's appointed loss assessors which includes the following items:

Two gentlemen's 22ct gold rings
A ladies' gold Rolex watch
A silver tea service
Three figurines, believed to be Royal Doulton.

What further information would you require from the assessors to enable you to validate quantum?

(8 Marks)

- C. You are dealing with a theft claim for Contents where your initial enquiries had identified certain circumstances that might suggest that the claim was potentially fraudulent. However, on completion of your further detailed enquiries, and whilst fraud is still suspected, no compelling evidence to this effect can be adduced and Insurers admit Policy Liability. You are instructed to proceed with settlement negotiations with the Solicitors who represent the Insured and who have presented a detailed and itemised claim.

Following scrutiny of the claim and completion of your own quantum enquiries, it appears that the Solicitors have not claimed the correct replacement cost of various electrical goods, having apparently based their claim on items of lower specification. You calculate that they have undervalued their client's claim by approximately £1,000.

How should you deal with this situation?

(8 Marks)

- D. You are dealing with a theft claim submitted under a High Net Worth Policy. The claim includes damage to two oil paintings which appears to have occurred when the thieves attempted to remove the paintings from their frames.

The damage is restorable and you have approved a quotation for this purpose from professional restorers. The work is completed and the Insured has paid the restorers. However, before the claim is settled, the Insured is contacted by the Police. Although purchased from a reputable source, the Police inform the Insured that both paintings had previously been stolen and must be returned to their rightful owners.

The Insured wishes to know where he stands in relation to what he considers the loss of his paintings and also the restoration costs that were incurred with your approval. What advice should you provide to him?

(8 Marks)

40 MARKS