



STRICTLY PRIVATE & CONFIDENTIAL
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The Chartered Institute of Loss Adjusters
Associateship Examination 2016 (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

- A. You are appointed by Insurers to deal with a claim for moderate fire damage which has occurred to a café in a town centre location. The café provides the usual range of non-alcoholic beverages, light meals, sandwiches and cakes etc and has seating for thirty customers. It is open between 8.00 am to 5.30 pm each day except Sundays.

Your Principals' Policy covers all Trade Contents and Stock together with Business Interruption. The latter covers Loss of Gross Profit on a Sum Insured Basis - £150,000.00 - with a twelve month indemnity period. There are no specific extensions and the policy wording is typical for a small business. The building is separately insured by the Landlord.

The precise cause of the fire is not determined but there is no evidence that it was other than accidental. Policy liability has been accepted by your Principals (and by the Landlord's Insurers) and you have already agreed the material damage element of the claim. To allow for the repair/replacement of damaged equipment, acquisition of new stock and repair of the building damage, it is estimated that it will be approximately eight weeks before the Insured can resume trading. Due to the nature of the business, it is accepted that it will not be feasible to consider partial reopening whilst building repairs and other remediation are ongoing.

- i) At the time of your initial visit, what advice generally should you provide to the Insured regarding the Business Interruption element of the claim?
- ii) What information and documentation should you require to enable you to verify the loss of turnover during the interruption period and to calculate the Rate of Gross Profit?
- iii) How should you determine whether the Sum Insured against Gross Profit is adequate or otherwise? If it is not adequate, how might this impact upon the claim?

(20 Marks)

- B. Discuss the circumstances under which it might be appropriate to evaluate a stock loss using the stock reconciliation method and also comment on 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)



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

(8 Marks)

40 MARKS

QUESTION 2

1. Explain briefly the term “Warranty” when applied to a policy of Insurance.

(4 Marks)

2. Specify two warranties that might apply to each of the following:

- a) Takeaway fish and chip shop
- b) Vehicle repairer.

(4 Marks)

3. In a typical Commercial Policy covering both material damage and business interruption, what is meant by the following terms:

- a) Reinstatement Memorandum
- b) Public Authorities Clause
- c) Loss of Attraction
- d) Departmental Clause.

(12 Marks)

4. 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. Draft a letter to explain this procedure to a Policyholder who would prefer to use the services of his/her preferred local contractor and who is concerned that the appointment of a network contractor may impact upon the quality and standard of the work with a view to minimising Insurers’ expenditure. The Policyholder also requires advice as to who will guarantee the work and the procedure for remedying any subsequent defects should the network contractor cease trading or be removed from the network. NB Your own name must not appear in this draft letter.

(15 Marks)

5. Calculate the amounts payable by each policy, on the basis of each Insurers’ independent liability, for the costs of Alternative Accommodation as follows:



Sum Insured - Buildings Policy - £50,000.00

Sum Insured - Contents Policy - £15,000.00

Total cost of Alternative Accommodation - £18,000.00

NB All arithmetical workings must be shown.

(5 Marks)

40 MARKS

QUESTION 3

You are instructed to deal with a claim for fire damage to a terraced, two storey, three bedroomed, tenanted private dwelling. Your Principals provide buildings cover to the landlord and the tenants have separate cover for their own contents with other Insurers. The tenancy agreement stipulates, amongst other things, that the landlord will arrange the necessary buildings insurance and also includes a cessor of rent clause in the event of the dwelling or any part being rendered uninhabitable due to fire or other insured damage.

Preliminary enquiries have shown that the fire was probably caused by a carelessly discarded cigarette end in the kitchen waste bin. The tenants do not smoke but admit that their daughter's boyfriend, who had been at the house on the day of the fire, is a smoker. Extensive damage was caused to the kitchen by the direct effect of the fire and to the remainder of the internal accommodation by the effects of heat and smoke contamination. The house will not be fit for normal occupation until the necessary repairs are complete.

Explain how you should deal with the following items of claim that have been presented to your Principals and the various issues listed. For the purposes of this question, assume that the Policy provides typical cover, that the Sum Insured is adequate and that Policy Liability is admitted.

1. Damage to fitted kitchen units and appliances. The tenants had replaced the original units in place at the start of the tenancy with better quality units and had also supplied a free-standing cooker. These items were installed by the tenants at their expense with the approval of the landlord. The replacement kitchen appliances include an integral washing machine, dryer and a fitted oven and hob.
2. Vinyl floor covering in the kitchen, again installed by the tenants with the landlord's approval.
3. Light fittings in the ground floor accommodation, again installed at the tenants' expense but without notification to the landlord.



4. Decorations throughout. These include areas where the tenants have applied upgraded wall coverings, again with the landlord's approval.
5. At the time of the fire, the tenants were in the process of redecorating part of the first floor accommodation. They had purchased rolls of wallpaper which had not yet been used but are now worthless due to the effects of smoke. Their purchase cost was £350.00 and your Insured has included this amount within the claim so that they can be reimbursed.
6. Fitted floor coverings. These were provided by the tenant.
7. Replacement of a number of double-glazed windows in the ground floor accommodation. However, you learn from your discussions with the tenant that the landlord had already agreed to replace two of these windows as their seals were defective.
8. Alternative accommodation requested by the tenant until the building is fit for habitation.
9. Your Principals' policy is subject to a £500.00 excess. As it appears that the fire was caused by a carelessly discarded cigarette, the landlord seeks your advice as to whether you will be pursuing recovery against the tenants and, if so, whether he can include the excess within this procedure. This is on the basis that, in the terms of the tenancy agreement, the tenants agree that they will not smoke, or permit smoking, within the premises.

40 MARKS



PART 2
ANSWER TWO QUESTIONS ONLY

QUESTION PC1

- a) Explain how Day One Reinstatement Cover operates.
(8 Marks)
- b) Explain how you should check the adequacy of the sum insured on a policy written on a Day One Reinstatement Basis and the basis upon which “Average” applies.
(8 Marks)
- c) Explain how you should deal with damage to any additions purchased since inception.
(8 Marks)
- d) Contrast reinstatement as provided for under the Condition incorporated in a Standard Fire Policy with reinstatement under the terms of the Reinstatement Memorandum.
(8 Marks)
- e) Explain how “Average” applies under the terms of the Reinstatement Memorandum.
(8 Marks)
- 40 MARKS**



QUESTION PC 2

You are appointed to deal with a claim arising from damage caused by a fire to a country house hotel.

The property was originally a large house in private ownership, but after its acquisition by the Insured in 2005, it was converted to a luxury hotel and the 3 stable blocks in the grounds were converted into a wellbeing and spa facility. The property is Grade II Listed*.

At the time of the incident, works were being undertaken at the property to build an extension to the stable block accommodation to increase the size, the works being carried out under a JCT Minor Works Contract**.

The fire originated in a linen store and caused severe damage to the block that was being extended. In the light of the damage, the Insured has had to relocate some of the spa facilities to within the main hotel building.

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

- a) 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 should verify the price.

(15 Marks)
- b) How should you deal with the claim for damage to the new extension that was under construction?

(5 Marks)
- c) What particular difficulties can arise when dealing with damage to a listed building?

(5 Marks)
- d) How should you deal with the claim for Employees' & Guests' personal effects?

(10 Marks)
- e) In view of the extent of the rebuild, the contractors will require a larger area for their site cabins and the storage of materials. In addition, the damaged area of the original structure is adjacent to the staff/guest car park, as a result of which this entire



area will now be behind the site hoarding. The Insured submit a claim for the construction of a temporary car park on an area currently laid to lawn. How should you approach this aspect of the claim?

(5 Marks)
40 MARKS

NOTES FOR NON-UK CANDIDATES

**A listed building is a building of historic importance that is protected by law. The level of its importance is governed by the grading, with Grade II being the second highest.*

Restrictions are placed on works that can be carried out to such buildings and in the event of damage the property has to be reinstated to its original style using comparable materials. Reinstatement therefore tends to be more expensive and can take longer.

***JCT Minor Works is a form of contract used in the UK for works involving repair or minor construction. If you are not UK based, you may answer this question on a contract with which you are familiar, providing you state the title and details of the contract form being referred to and the country in which you are based.*



QUESTION PC 3

The policyholder is a retailer of designer label men's clothing with several shops located in the London area. Stock is purchased in the UK, Europe and the Asia Pacific Region. Purchases made in Europe are in Euros and those from the Asia Pacific Region are in US Dollars. All foreign purchases are made via Letters of Credit. The purchase price excluding the Asia Pacific Region is on a CIF (cost, insurance, freight) basis to the UK port of landing. European purchases are CIF to the policyholder's warehouse on the outskirts of London. Stock is then transferred from the warehouse to the various shops, as required, by an independent carrier contracted to the Insured. There is generally a 3 to 6 month lead in time for replacement stock.

One of the Insured's shops, which is located in the West End of London, is a 4 storey premises with a basement and the Insured occupy the ground floor and basement under the terms of a full repairing lease. The ground floor comprises the main retail and display area with fitting rooms, and the basement is used for the storage of stock and also has staff welfare facilities at the rear. A water main located below Old London Road failed due to age, as a result of which water percolated into the basement overnight, flooding it to a depth of 220 mm. Stock (mainly shirts and ties) contained in boxes on timber pallets laid on the floor was partially submerged, rendering the majority of items useless.

The remaining stock in the basement (generally suits, jackets and trousers) is kept on hangers distributed across various storage rails and, whilst these have not been in direct contact with the water, they have become damp and have a musty odour, as a result of which they cannot be sold by the policyholder as prime merchandise. The display stock on the ground floor is unaffected.

- a) Explain any avenues of subrogation that may arise. (5 Marks)

- b) Given the location of the stock room, should you expect any warranties to apply, and if so how could this affect your adjustment of the claim? (5 Marks)

- c) 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? (You are **NOT** required to draw up or explain a stock reconciliation.) (20 Marks)

- d) Explain the options that are open to you in relation to the stock that cannot be sold as prime merchandise and comment upon the advantages or disadvantages of each option. (10 Marks)

40 MARKS