



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

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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 PD1

You are instructed to deal with a claim for extensive fire damage which has occurred to a large detached late Victorian building set in its own grounds. The building was originally a family home but some time previously had been converted into a number of self-contained flats. It was unoccupied at the time of the fire. The building had been purchased approximately twelve months earlier by XYZ Ltd, property developers. The sole proprietor of the company is a Mr John Jones and the only directors are Mr Jones and his wife.

Your Principals were aware that the property was unoccupied and the policy is subject to various endorsements. These include a requirement for weekly internal inspections to be carried out by, or on behalf of, the Insured, for these to be recorded and for the property to be protected by a monitored intruder alarm system.

As a result of the enquiries you have carried out and the further investigations you have instigated, the following features have been identified:

1. Forensic investigation suggests that the fire was deliberate in origin with evidence of accelerants having been introduced into the premises.
2. There is no evidence that the weekly inspections were carried out. By way of explanation, Mr Jones tells you that this task was contracted to a local security firm and there was no reason to believe that they had failed to undertake these inspections.
3. There is an alarm system within the building but this is “bells only” and not monitored. In any event, it does seem that the alarm was defective and not operational.
4. You are told, unofficially, by local Police Officers that there have been numerous previous break-ins to the premises through insecure doors and windows, mainly by children and young persons from the neighbourhood. This appears to be confirmed by evidence of graffiti daubed within parts of the building and possible evidence of substance misuse.
5. You have ascertained that the Insured applied for planning permission to demolish the existing building and to replace it with six exclusive detached houses. Planning permission was granted. However, the Insured tell you that, for various reasons, they have decided not to proceed with this development and, prior to the fire, the intention was to refurbish and relet the existing self-



contained flats.

6. You have also ascertained that Mr Jones has previously been the director of other companies, some of which have been wound up at the instigation of creditors and others that have have unsatisfied County Court judgments recorded against them.
7. You are led to believe from hearsay information that Mr Jones has been or is associated with some form of fraudulent activity involving timeshare apartments in Spain. Comment has also been made to you that Mrs Jones has, sometime in the past, been fined for handling goods stolen by shoplifters.

Explain how you would deal with these issues and what advice you would provide to your Principals.

40 MARKS

QUESTION PD2

1. You are dealing with a claim under the All Risks section of a Household Policy which covers unspecified Valuables and Personal Possessions.
 - a) Explain briefly what type of property would be covered by the term “Valuables and Personal Possessions”.

(4 Marks)
 - b) List four items that would normally be excluded from this element of the policy cover.

(4 Marks)
 - c) The claim includes various items of jewellery. Explain briefly how you would validate these items.

(4 Marks)
2. Explain what recommendations you should submit to your Principals regarding both Policy Liability and Quantum in the following circumstances:
 - a) The Insured, Mr A, a middle-aged gentleman, submits a claim for the loss of his gold watch which is covered as a Specified Item under the All Risks section of his household policy. You are told that the watch was originally owned by his late father and on his death was given to him by his mother who herself has since died. You are also told that the watch was worn on a daily basis.

One evening, the Insured went to a local convenience store to make some purchases. Whilst there, he encountered Mr B, with whom he had had a dispute



about fifteen months earlier over certain personal issues. Mr B apparently made some derogatory remark to which the Insured responded to the effect that “they should sort this outside”. Once outside, a fight, initiated by the Insured, developed between the two men and stopped only when the shopkeeper came out to inform them that he had called the Police. Both men left the scene before any Police Officers arrived, neither having sustained any injuries apart from minor cuts and bruising. On his return home, the Insured took a shower and retired to bed.

The following morning, he was unable to find his watch, which is normally kept on a bedside table. He realised it may have been lost during the fight and he returned to the shop to make enquiries, but without success. He is claiming an amount of £3,000.00 for its loss based on the Sum Insured. Your Principals would normally have required a recent valuation certificate prior to insuring the watch but, due to an oversight on their part, this was not requested on this occasion.

When submitting the claim to your Principals, the Insured was informed that he should report the loss of the watch to the Police before the claim can be considered. He is reluctant to do so in view of the fact that it may have been lost during the fight and this might involve him in some difficulty with the Police if they decide to investigate that incident further. However, you are aware from your own local knowledge that this particular Constabulary, together with various others, no longer deals with, or accepts reports of, lost property.

(14 Marks)

- b) You are dealing with a claim for a gold bracelet insured as unspecified Personal Possessions. There is no original documentation but the Insured submits a post-loss valuation from a local jeweller. This shows a value of £2,500, but the document appears to have been altered. On making enquiries with the jewellers, they confirm that the document is genuine but the original valuation provided was for £2,000.00. When you confront the Insured, the alteration is admitted but the Insured goes on to state that this was done in anticipation of the amount claimed being reduced by the adjuster as part of the normal settlement negotiations. The intention was simply to ensure that the claim would be settled, from the Insured’s stance, at the correct level.
- c) Should your advice be any different if the original valuation had been for £500.00?

(14 Marks)
40 MARKS



QUESTION PD3

Impact damage has occurred to a large detached two storey private dwelling occupied by the Insured, his wife and their five children. The Insured is a self-employed Surveyor and works from home with an office on the ground floor of the property. Your Principals, whose policy covers both Building and Contents, are aware of these arrangements.

The property is at the foot of an incline on a quiet suburban road. It was impacted by a delivery van which had been parked on the road about 100 metres away whilst the driver had stopped to ask for directions at a public house set back from the road. It seems that the driver had only left the vehicle unattended for a few minutes when it suddenly started to roll down the hill and then impacted the Insured's property at the foot of the hill resulting in significant structural damage to the front elevation of the building and to part of the front roof. Hedges forming the front boundary of the property and also shrubs and lawned areas in the front garden were also damaged.

At this stage, the precise reason(s) why the vehicle rolled down the hill have not been established. During discussions with Police Officers who attend the scene, the driver maintains that it was locked and secured and the brakes properly applied. There had, apparently, been no previous problems with the vehicle.

- a) Detail in note form the information you would obtain at the time of your initial site visit. Explain briefly what further action you would recommend and what advice you would initially provide to the Insured. In particular, the Insured has been approached by a number of assessors/adjusters offering to represent him and he asks you whether it would be appropriate for him to employ an assessor/adjuster on his behalf.

(10 Marks)

- b) At the time of your initial site meeting, you have confirmed to the Insured that it would be in order for him to seek suitable alternative accommodation pending reinstatement of the damage. The following day, the Insured contacts you and explains that any temporary accommodation will need to be of sufficient size to cater for the needs of his family. It will also need to be convenient for the children's schools, for his wife's employment (she is a part-time dentist at a local surgery), and must also have adequate space for his own professional office.

From enquiries the Insured has made so far, there are no suitable rented properties available in the area. As a possible solution, he suggests that he and his family would be prepared to accept accommodation at a local three star hotel on a dinner, bed and breakfast basis. In addition, he has located a suitable temporary office which he can rent for an initial fixed period of six months and thereafter on a monthly basis if the repairs to the house are still not complete. This is, however,



some four miles from his home and he has asked whether the additional travel costs to be incurred will be reimbursed as part of the claim.

Explain how you should deal with this proposal.

(10 Marks)

- c) Two days after your initial site visit, you are contacted by the Insurers of the motor vehicle involved. Your firm carries out a substantial volume of work for these Insurers. They ask whether you will be prepared to act for them in order to advise them on potential quantum only. They are carrying out their own investigations into liability.

Explain how you would deal with this request.

(10 Marks)

- d) The Insured does subsequently engage a Chartered Loss Adjuster to represent him and to prepare the claim on his behalf. The initial claim presentation includes the following items:

- Renewal of the whole of the roof covering. Only the front section of the roof has been damaged but it seems that matching tiles are no longer available and hence the proposal to re-cover the complete roof.
- Surveyors' fees for monitoring the reinstatement and issuing payment certificates, based on 20% of the value of the contract.
- Complete reinstatement of the whole of the front garden including hedges, lawns, plants and shrubs.
- Furniture and other contents within the office used for the Insured's professional purposes.

Explain briefly how you should deal with these elements of the claim.

(10 Marks)

40 MARKS