



***STRICTLY PRIVATE & CONFIDENTIAL***  
***for internal use only***

**The Chartered Institute of Loss Adjusters**  
**Associateship Examination 2016 (October)**

**Paper C3 - Liability**

**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.**

**Notice of Copyright**

This document and any information contained therein remains the confidential and copyright property of the CIL A. Without infringement neither the whole, nor any extract, may be disclosed, loaned, copied or used for manufacturing, the provision of services or any other purpose whatsoever without the express permission and written consent of the CIL A. No liability is accepted for any loss or damages from any cause whatsoever arising out of the use of this document or its contents.

COPYRIGHT © CIL A 2016



**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 would 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 L1**

You act for an insurer who provides A commercial combined policy which includes both EL and PL cover. The same insurer provides a Fleet motor policy to the same insured.

You are advised that one of the insured's lorries was loading at a customer's loading bay. The driver believed the loading to be complete and pulled away from the bay. Unbeknown to the driver one of the customer's warehouse men was still in the back of the vehicle and as the lorry pulled away he fell to the ground sustaining an injury.

- a) Discuss which of the covers (EL, PL or Motor) the claim might be dealt with under ensuring you explain why or why not each cover may be appropriate.  
(15 Marks)
- b) Explain your thoughts on liability when you initially receive the claim papers and identify what further enquiries you might make in relation to legal liability.  
(25 Marks)  
**40 Marks**

**QUESTION L2**

Your insured has caused damage to a neighbouring property following a fire. Liability has been admitted. The insurers of the neighbour are pursuing a subrogated claim. The first party claim has been dealt with on a reinstatement basis and the claim is presented as follows:

Buildings £58,000  
Contents £12,500  
Alternative Accommodation £6,400  
Forensic Scientists fee £2,500  
Adjusters fee £1,200

- a) Explain what further information you might request from the subrogating insurer in respect to each head of claim  
(15 Marks)



- b) Discuss your understanding of Damages in the above claim highlighting where you might seek to make adjustments and why. Please refer to any case law that exists to support your arguments.

(25 Marks)  
40 Marks

### QUESTION L3

Provide an explanation on **four** of the following five:

- a) Res ipsa loquitur
- b) General Damages and Special Damages with examples of both
- c) Responsibilities for payments to The Compensation Recovery Unit
- d) Claimant's duty to Mitigate
- e) Proportionality in respect to damage to a Claimant's property

(10 Marks each)  
40 Marks