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The Chartered Institute of Loss Adjusters
Advanced Diploma Examination 2017 (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

A. Explain how the Insurance Act 2015 deals with the following issues:

- i) Breach of Warranty
- ii) Fraudulent Claims.

(25 Marks)

B. Outline the main provisions of the Consumer Insurance (Disclosure and Representations) Act 2012 and explain how these might apply to the adjustment of an Insurance Claim.

(15 Marks)

40 MARKS

QUESTION 2

a) Explain the difference between Contribution calculated on the Independent Liability basis and Contribution calculated on the Sums Insured basis.

(8 Marks)

b) The agreed loss is £25,000. The Sum Insured against Policy A is £20,000 and for Policy B the Sum Insured is £50,000. Showing the method of calculation, advise the Contribution payable by each Policy towards the agreed loss.

(8 Marks)

c) Using the same figures as above, and again showing the method of calculation, advise the Contribution payable by each Policy on the Sums Insured basis.

(8 Marks)

d) The insured own a holiday apartment in Spain where they stay on a regular basis. On one occasion, a theft occurs and they submit a claim to your Principals. The Policy covers unspecified Personal Effects with a Sum Insured of £3,000. The claim is in order and is validated at £4,000. Your Principals therefore conclude settlement at £3,000 on the basis of the Sum Insured.

You had previously asked the Insured to provide you with details of any separate Travel Insurance that they may have arranged. Following settlement of the claim, they confirm that a separate Travel Policy is in place and you find that similarly this provides cover for unspecified Personal Effects and with a Sum Insured of £750.

(Continued)



Your Principals wish to know whether any Contribution may be available from the Travel Insurers. What advice do you provide to them?

(8 Marks)

- e) Discuss briefly the potential for Subrogation that may be available in the following circumstances, citing relevant case law and statute as appropriate:

Fire damage has occurred to the Insured's property including both Building and Contents. The fire originated within and spread from the adjoining property. It is known that the occupier of that property is a smoker and the Fire Service have recorded the supposed cause as a carelessly discarded cigarette. At the time of the fire, various family members, some of whom are also smokers, were visiting the neighbour.

(8 Marks)

40 Marks

QUESTION 3

1. In a typical Commercial Policy covering Material Damage and Business Interruption, explain the following terms:

- a) Material Damage Proviso
- b) Increased Costs of Working
- c) Contract Price Clause
- d) 15% Co-Insurance Clause.

(15 Marks)

2. The Insured are suppliers of CCTV and other electronic equipment to trade and commercial users. The stock is packaged in cardboard cartons and stored on shelving in a warehouse owned by the Insured. A burst pipe occurs which saturates the cardboard cartons directly below. You are appointed by Insurers and, following your enquiries, Policy Liability is confirmed. It is accepted that the equipment within the packaging that has been saturated has been rendered a total loss and quantum is evaluated at £7,500.

However, the Insured, with the support of their Brokers, maintain that other packaged equipment adjacent to the area directly affected should also be declared a total loss since there is the risk of malfunction due to ingress of moisture and potential danger to end users.

(Continued)



In such event, the supply of potentially defective equipment might impact significantly upon their commercial reputation and to this end, and even if Insurers concede that this additional equipment can be included within the claim, the Insured should not allow any salvage disposal by way of mitigation. There is no immediate evidence that this additional stock has been damaged, its external packaging exhibiting no signs of water staining or dampness. If the claim for this equipment is admitted, the additional claim costs are estimated at £15,000.

In discussions with the Insured and their Brokers, you have suggested, as a possible solution, specialist random sampling to ascertain whether there is evidence of moisture-related damage. This proposed procedure is, however, not acceptable to them and they should require all the equipment to be checked, which should clearly be uneconomic.

In view of the impasse that has been reached, what recommendations do you submit to your Principals?

(20 Marks)

3. Calculate the amount payable by Insurers in the following circumstances. All workings must be shown.

Agreed Loss of Gross Profit	£50,000.00
Fees of Claimant's Loss Adjusters	£2,000.00
Accountant's Fee for certifying turnover (at Insurers' request)	£500.00
Sum Insured on Gross Profit	£200,000.00 (Declaration Basis)
Insurable Amount	£300,000.00

(5 Marks)

40 Marks



PART 2
ANSWER TWO QUESTIONS ONLY

QUESTION PC1

You are appointed by the Insurers of a company that manufactures packaging for various “ready meals”. About 75% of their production relates to supermarket “own brand” products. The packaging basically comprises the card sleeves that are slipped over the sealed oven-ready food containers.

The policy provides cover for Machinery, Plant and All Other Contents, Tenants’ Improvements, Stock and Business Interruption. For the purpose of this question, assume that the sums insured under each policy item are adequate.

The Insured occupy the premises under the terms of a full repairing (but not insuring) lease. The landlord has a separate policy covering the Buildings and Loss of Rent (36 months).

A fire occurs in a printing press. The Fire Brigade manage to extinguish the fire before it spreads from the machine, but the entire building and contents are contaminated to various degrees by the products of the combustion.

1. Stock contained within the unit has been rendered useless by smoke and the extinguishment medium. Stocks comprise raw materials (i.e. card) work in progress (card that has been printed but not yet cut, folded and glued) and finished stock awaiting despatch to customers.

Assuming that the quantities destroyed are agreed, explain the basis on which you should value the stock. (This is not a stock reconciliation question.)

(10 Marks)

2. Explain how you should deal with these aspects of the claim:

- (a) The claim for the supermarket “own brand” stock is submitted at the contracted sale price.
- (b) Part of the raw materials that were damaged comprises the plain card that forms the basis of the final printed sleeve. This is imported and you establish that the cost of replacement has risen by 18% due to recent currency exchange rate fluctuations.
- (c) The Insured claim an additional figure equivalent to 4% of the stock claim in respect of “Head Office administration and restocking costs”.

(15 Marks)



3. Landlord's Insurers request you to deal with the following items. Provide your response and reasons for each item:
- (a) The replacement of the electrical intake, main distribution board and wiring adjacent to the press that was destroyed.
 - (b) The upgrading of the ventilation system in the staff canteen to comply with current Building Regulations.
 - (c) A mezzanine floor structure recently installed by the tenant to accommodate additional storage.
 - (d) The cost of temporarily removing the undamaged stock racking and plant to enable the decorating contractors to reinstate the building and decorative finishes.
 - (e) Premium time working costs so that the building repairs can be undertaken outside of normal working hours.

(15 Marks)

40 Marks

QUESTION PC2

You are appointed by Insurers to investigate and adjust a fire claim that has just occurred at a furniture retailer, ABC Furniture Ltd.

The property is owned by Properties Ltd and leased to ABC Furniture Ltd on a 25 year fully repairing and insuring lease from March 2012.

The property comprises a 1950's steel-framed retail/warehouse unit with cavity brick external walls under a pitched asbestos corrugated sheet roof. It has a net lettable area of 5,000 m². At the front of the building is a two storey office unit.

At the time of the incident, the building was being redecorated externally and it is thought the fire was started by the decorators (Gloss Paint Ltd), who were appointed on an order from ABC Furniture Ltd.

During your investigation, it becomes apparent that ABC Furniture Ltd are also repairing furniture on the premises (generally furniture that arrives from the importers in a damaged condition). This was not disclosed on the proposal, which stated they only stored/sold furniture from the premises.

(Continued)



The fire causes damage to the roof of the building, resulting in damage to the showroom and to the manufacturing area.

It is discovered that the building is contaminated by asbestos and the Insured therefore seeks to move into temporary accommodation. This will involve refitting another showroom and advertising the new location.

Prior to the incident, a fire officer had inspected the premises and advised the company of certain improvements he required to the means of escape, including upgrading fire doors. He also suggested installation of a sprinkler system.

Cover is provided under a Commercial All Risks Policy as follows:

Buildings (including Debris Removal)	£6,000,000
Tenant's Fixtures and Fittings	£250,000
Plant, Machinery and AOC	£225,000
Computer System	£10,000
Stock	£900,000
Business Interruption (12 months indemnity period)	£1,800,000

The policy has the benefit of the Reinstatement Memorandum and Public Authorities Clause and is subject to Average.

The loss is presented by Loss Assessors as follows:

Buildings	£180,000 (including upgrading of the fire doors and roof insulation).
Debris Removal	£150,000 (buildings/plant/stock. Includes decontamination)
Plant & Machinery	£50,000
Computer System	£15,000 (uninsured balance of £5,000 is claimed as Plant, Machinery and AOC)
Stock	£270,000 (comprising £150,000 smoke damaged, £125,000 water damaged, £25,000 for furniture under repair)
Business Interruption - Loss of Profit	£200,000
ICW	£35,000



Describe in detail:

- (a) The enquiries/investigations you should undertake into cause and subrogation.
(10 Marks)
- (b) The advice you should give your Principals on policy liability.
(5 Marks)
- (c) How you should quantify the admissible claim. Set out your reasoned settlement proposals. Include details of ICW **but exclude the other Business Interruption aspects.** (Assume liability has been accepted.)
(25 Marks)
40 Marks

QUESTION PC3

You have been instructed by the insurers of a property investment company in relation to a fire.

The building comprises a steel portal frame, in-filled with blockwork to eaves height, the internal face of which is simply painted. Externally, the walls are clad with powder-coated steel panels and the roof comprises composite insulated panels fixed to lightweight steel purlins supported by the portal frame. Standard services are provided. The building measures 20 m by 60 m on plan with the offices and reception being located in a two-storey section at the front of the premises measuring 20 m by 7 m.

The fire has damaged 75% of the building. The policy excess is £25,000.

- 1) What approximate value should you expect the building to be insured for? Show any assumptions in your calculation.
(8 Marks)
- 2) What methods are available to you to ascertain the value at risk for the building? Provide a brief description of each method, advising the order in which you consider the different methods are most accurate.
(8 Marks)

(Continued)



- 3) You established that at the commencement of the policy on 1st January 2009 the building had a value at risk that was 15% more than the sum insured. The fire occurred on 30th December 2009. Discuss what practical implication this may have with regard to the settlement of the claim on the following basis:
- i) 85% Average clause
 - ii) Declared Value on a day one basis.
- (8 Marks)*
- 4) Contrast reinstatement as provided for under the operative clause of the policy and reinstatement under the Reinstatement Memorandum.
- (8 Marks)*
- 5) The claim was settled for £1m, after an adjustment for average of £475,000 and after the deduction of the policy excess of £25,000. You recover £750,000 in the recovery. Advise on how this sum is apportioned along with your reasons.
- (8 Marks)*

40 Marks