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**The Chartered Institute of Loss Adjusters**  
**Advanced Diploma Examination 2017 (October)**

**Paper C3 - Property Commercial**

**3½ Hours**

**Maximum Marks 200**

**Answer Any Five Questions out of Six**

*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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## ANSWER ANY FIVE QUESTIONS FROM SIX

### QUESTION 1

You are instructed to deal with a claim for water damage at Home Farm Cottage, Darrington. Darrington is a village situated on the flood plain of the River Am. The risk address is of brick construction under a pitched tiled roof. The building has solid walls and, being built in 1823, has no damp-proof membrane.

The Policyholder, Sid Perks, advises that his family has owned the building for at least 130 years and he believes that his great-great-grandfather may well have had the house built. Sid is 93 years of age, partially sighted and, due to the onset of arthritis, is unable to climb up or down stairs. As a result, he sleeps on the ground floor in a small room that was previously used as an office. Adjacent to the room is a bathroom.

Sid has no relatives nearby, his partner having died fifteen years before. He has a carer, Phoebe, who is employed by a local agency, Care4You.

Phoebe is present when you visit and is asked by Sid to explain the problem to you. From your conversation, you ascertain that there is a leaking radiator on the first floor. Water has been dripping into the living room and the lath and plaster ceiling has bowed and is likely to collapse. The bathroom used by Sid has also been affected. Sid warns you that the wall panelling in that room is dangerous - he believes that his late brother installed a partition in the room in the 1960s and "foolishly" used asbestos in the construction.

It is apparent from your inspection that the pipe leading to the radiator has been leaking for several months. When asked, Phoebe says that she first told Sid about the leak around seven months ago, but he told her that there was no need to worry. When the large crack in the ceiling appeared four weeks ago, he became more interested and last week he finally agreed to allow Phoebe to contact the Insurers.

You ascertain quickly that the bathroom is not fit to be used due to the extent of water damage to the asbestos partition. You are concerned that the asbestos has been significantly disturbed. Sid has no other facilities accessible to him.

Further, you identify that there is evidence of dry and wet rot in the building.

- a) Explain, providing your rationale, the issues you would take into account to consider the matter of late notification to enable the Insurers to make a reasonable decision on Policy liability on late notification.

*(15 Marks)*

- b) Irrespective of the decision concerning the late notification, you are asked to provide guidance to the Insurers on the matter of Alternative Accommodation. Provide, with an explanation as to why, what information you would obtain and provide to Insurers to decide on liability for Alternative Accommodation.

*(15 Marks)*



- c) Stating assumptions as relevant, explain what your recommendations to Insurers would include in terms of how they might base their decisions on Policy liability with regard to the Late Notification and Alternative Accommodation. In particular you should make reference to treating the customer fairly and any ethical considerations.

*(10 Marks)*

**40 MARKS**

## QUESTION 2

- a) Explain what is meant by the following terms under a Business Interruption Policy:

- 1) Gross Profit
- 2) Rate of Gross Profit
- 3) Savings
- 4) Declaration Linked.

*(20 Marks)*

- b) You are handling a claim for Impact to the front of a shop by a motor vehicle. The owner of the shop is claiming that her business has been interrupted as a result and that a claim will be made under the Business Interruption Policy.

During the Period of Indemnity, a famous cycle race, which draws crowds from across the world, takes place. The cycle race passes the front of the shop. Taking advantage of the situation, the shop owner opens for extended hours and takings on that day are approximately 10 times greater than would be expected on any other day. Seeing this, you realise this has almost made up for the entire loss suffered by the Policyholder for Business Interruption. The Insurers therefore suggest to you that there ought to be no payment to the Policyholder for loss of profit. Explain, with your rationale, how this would normally be dealt with under a Business Interruption Policy.

*(20 Marks)*

**40 MARKS**

## QUESTION 3

Having been appointed to handle a claim for the theft of a Rolex watch under a typical All Risk Policy, you have ascertained a number of facts around the circumstances that warrant greater consideration.

The circumstances of the event are that Mark Hepdon had been accompanying his 25-year-old brother on a weekend trip to a European city. By his own admission, Mark advises that the weekend was quite a big occasion and involved considerable consumption of alcohol, river rafting and a visit to a casino.



Mark tells you that he is not in the habit of drinking alcohol and in fact this was the first time in 2 years that he had done so.

He remembers wearing the watch on the Saturday evening. He recalls this because Matt Bellingham, a former colleague, asked him for the time and, seeing the Rolex, he made continuous reference to the obvious wealth of Mark until Eddie Grundy, his brother's best friend, asked Matt to stop talking about Mark in that way.

Mark tells you that he had mixed fortunes at the casino. He remembers at one stage he lost a considerable amount of money, but by the end of the night he thinks he was about even.

The following afternoon, Mark woke in a hotel room - not his own room or indeed his own hotel. There was another man in the room, David Archer, who had been part of the party but had chosen to stay elsewhere as he preferred privacy and some quiet time. David advised Mark that he had found Mark strolling outside the casino at 3 a.m. and had taken him back to his hotel to ensure he came to no harm. David is sure that the watch was not present when he found Mark because Mark kept trying to show David the watch on his wrist but the watch was missing. David could not get any real sense from Mark and took no action other than to take him back to his hotel.

- a) With particular reference to the Policyholder's duty to exercise reasonable care, provide your recommendation to Insurers, stating your rationale and evidence to support your rationale. You should include relevant case law and other authoritative decisions (you are NOT required to prepare this as a report or letter). (20 Marks)
- b) Provide, with relevant statutes and case law to support your answers, the definition of **TWO** of the following Perils:
- 1) Storm
  - 2) Fire
  - 3) Theft
  - 4) Riot.

Your answers should include an explanation of how you would determine whether a particular peril has operated.

(20 Marks)

**40 MARKS**



## QUESTION PC1

You are instructed by the Insurers to deal with a fire claim under a policy which they issue to Jones & Jones Ltd covering building, machinery and plant on a reinstatement basis. Jones & Jones Ltd own the affected building and also occupy the ground, first floor and second floor where they trade as the All Clothing Company Ltd which manufactures clothing using material imported from the Far East. There is serious fire which necessitates extensive building repairs and replacement of many items of equipment and stock. Investigations confirm that the fire has been negligently caused by the tenant of the basement area who occupies the premises under a formal lease from Jones & Jones Ltd:

- a) Explain using case law to support your answer, the potential for a successful recovery taking account issues such as the implications of the tenant causing the fire and the extent of potential liability in terms of cost of reinstatement.

*(15 Marks)*

- b) The buildings cover is written on a Day One Reinstatement Basis, explain how this operates and the basis upon which “Average” applies.

*(10 Marks)*

- c) The Local Authority tell Mr Jones that, as a result of the fire, the means of escape must be improved and that a new external fire escape stairway must be constructed to provide an alternative escape route from the only internal staircase that serves the first and second floors. How would you advise the Insured in respect of policy cover?

*(5 Marks)*

- d) 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).

*(10 Marks)*

**40 MARKS**



## QUESTION PC2

You are appointed by Insurers to investigate and adjust a water damage claim which has just occurred at the offices of Fund Managers Ltd (FML) located in the city centre.

The 5 storey office block was built in 1935 but extensively renovated and modernised in 2005 by the freeholders Properties Ltd. Each floor was then let as a “shell” so that the leaseholders could then undertake their own fit outs to suit the nature of their business.

FML occupy the 2<sup>nd</sup> and 3<sup>rd</sup> floors under the terms of a 15 year fully repairing lease which commenced in 2005. The 4<sup>th</sup> floor is occupied by ABC Capital Ltd.

At the time of the incident the 2<sup>nd</sup> floor was being refurbished by an independent contractor employed by FML under the terms of a JCT Minor Works Contract\*, the contract sum being £300,000. The work was due to be completed 3 weeks after the date of the loss and in the interim all of FML’s staff were working on the 3<sup>rd</sup> floor.

The escape of water occurred on a Sunday evening so was not discovered until the Monday morning and had caused extensive damage to the main reception area, corridor and staff dining room on the 3<sup>rd</sup> floor and the newly refitted boardroom on the 2<sup>nd</sup> floor, this had just been completed but not yet handed over as works were still continuing elsewhere on the 2<sup>nd</sup> floor.

Investigations revealed that the water had escaped from a drinks vending machine on the 4<sup>th</sup> floor. This vending machine dispenses hot and cold drinks and is connected to the mains water supply. The machine was purchased outright by ABC Capital 9 months previously, but installed by the suppliers, Vending Ltd.

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

|                                                                                                    |             |
|----------------------------------------------------------------------------------------------------|-------------|
| Tenants Improvements, Fixtures & Fittings                                                          | £ 2,250,000 |
| Computer System                                                                                    | £ 90,000    |
| Contents                                                                                           | £ 600,000   |
| Business Interruption (Increased Costs of Working [ICW] only - 12 months maximum indemnity period) | £ 900,000   |



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

- a) Describe in detail the enquiries/investigations you would undertake into cause and what potential recovery rights may arise? Discuss when you would put the third party on notice.

(15 Marks)

- b) The Insured state that the newly fitted out board room on the 2<sup>nd</sup> floor will require complete renewal at a cost of £45,000 and they include this within their claim - explain how would you deal with this item?

(5 Marks)

- c) Describe in detail the investigations that you undertake to verify the adequacy or otherwise of each of the sums insured? (***You are NOT required to comment upon the adequacy of the figure in respect of ICW.***)

(10 Marks)

- d) What is the difference between a Tenant's Improvement and a Tenant's Fixture and Fitting. Explain the circumstances under which a landlord may be responsible for insuring/reinstating a Tenant's Fixture & Fitting.

(5 Marks)

- e) The insured requests that you deal with premium time working costs so that the repairs can be undertaken outside of normal working hours. How would you respond to this request and why?

(5 Marks)

**40 MARKS**

### FOR NON-UK CANDIDATES

*\*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 part (c) based upon 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 PC3

You are instructed by the Insurers of an independent boarding school (fees per term average £9,000 per pupil). The school was constructed in 1970 and is a 3 storey structure comprising a steel reinforced concrete frame with brick and concrete infill and cast in situ concrete floors.

During a weekly maintenance inspection water was found to be collecting on the floor of the boiler room and this appeared to be percolating through the base of the rear wall of the room approximately 250mm above floor level, where the 10 flow and return pipes pass through the wall to distribute hot water to the heating system throughout the school. The boiler room is at semi-basement level such that the distribution pipework (once it passes through the rear wall) is 450mm below the concrete ground floor of the adjacent dining hall until it reappears in the risers on the opposite side of the hall, a distance of some 20 metres. Consequently, the precise location of the leak has not yet been determined nor has the part of the building that will be affected when the pipe is eventually isolated, as each pair of pipes serve as the flow and return to 5 separate parts of the building.

Subsequent monitoring of the central heating header tank reveals that some 150 litres of water a day are being lost due to the leak but this appears to be largely lost in to the ground and is not causing any visible damage to the building.

Making whatever assumptions you wish regarding the cover (***but you must explain fully the assumptions made***), explain whether you regard any of the following items claimed for by the insured are covered by a typical Commercial Policy:

- a) Substantial costs in locating the leak and determining the cause of the pipe failure, including the cost of excavating the dining room floor to access the pipework and then reinstating same including the tiled floor covering.

(10 Marks)

- b) The cost of repairing the pipe or pipes once the damage is located.

(5 Marks)

- c) The cost of excavating the dining room floor to access the pipework and then reinstating same including the tiled floor covering.

(5 marks)



d) The anticipated cost of the lost metered water.

*(5 Marks)*

e) The cost of hiring portable oil filled electric heaters so that the affected area of the school can be heated whilst the repair is undertaken.

*(5 Marks)*

f) As an alternative to incurring considerable costs attempting to locate and repair the leak, with the associated disruption that would cause to the school, the Policyholder suggests that the existing pipework is simply isolated after which ten new pipes are run from the boiler room to the riser via an alternative route (i.e. through the ceiling voids) and this potentially results in a significant saving on the overall cost.

*(10 Marks)*

**40 MARKS**