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The Chartered Institute of Loss Adjusters

Advanced Diploma Examination 2018 (April)

Paper AD2

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 5 QUESTIONS OUT OF 6

QUESTION 1

- a) Outline the main provisions of the Insurance Act 2015 and explain how these may be relevant to the adjustment of an insurance claim. *(20 Marks)*
- b) Explain the following terms and how they would apply to the adjustment of an insurance claim:
- i) Reinstatement Memorandum
 - ii) Public Authorities Clause
 - iii) Escalator Clause
 - iv) Contract Price Clause
 - v) 10% Co-Insurance Clause.

(20 Marks)

40 MARKS

QUESTION 2

- a) Explain the difference between Contribution calculated on an Independent Liability basis and the Sums Insured basis. *(6 Marks)*
- b) You have been appointed to deal with a claim for flood damage that has occurred at the Insured's property. Your Principals' Policy covers Contents, with the Buildings being covered separately by different Insurers.

Due to the extent of the damage, the Insured and his family require alternative accommodation. It is agreed with the Adjusters representing the Buildings Insurers that their Principals will initially finance these costs and that your Principals will contribute on the basis of each Insurer's independent liability.

Ultimately, the outlay of the Buildings Insurers is quantified at £10,000. The Sum Insured for such costs under that Policy is £25,000 whilst the Sum Insured under your Principals' Policy is £7,500. Additionally, and on first notification of the claim out of hours, your Principals agreed and paid for emergency hotel accommodation at a cost of £500.

Showing all relevant workings, calculate the Contribution now payable by your Principals.

(10 Marks)

- c) You are dealing with a claim presented to your Principals for the loss of a gentleman's gold watch. This occurred whilst the Insured was on holiday in France. The Policy includes cover for Unspecified Valuables with a Sum Insured of £5,000 and including a Single Article Limit of £1,500.

Your enquiries establish that the claim is in order and, allowing for Supplier's discount, the replacement cost of the watch is validated at £2,000. Accordingly, settlement is concluded at £1,500 on the basis of the Single Article Limit and this amount is paid to the Insured.

The Insured had disclosed a separate Travel Policy that would cover a loss of this type but with a Single Article Limit of £300. Your Principals request you to contact the Travel Insurers to obtain contribution of that amount towards the outlay they have incurred. What advice do you provide to your Principals on this issue?

(10 Marks)

- d) Explain the term "Subrogation" and how this might arise when dealing with an insurance claim.

Briefly discuss how the precedent established in the case of *Mark Rowlands Ltd v Berni Inns Ltd (1986)* impacts upon subrogation.

(8 Marks)

- e) Explain briefly the term "Salvage" within the context of an insurance claim and how this would normally be dealt with.

(6 Marks)

40 MARKS

QUESTION 3

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

- b) In a typical Business Interruption Policy, explain:

- i) The difference between Increased Costs of Working and Additional Increased Costs of Working. Give one example of each
- ii) The circumstances under which Cover under the Denial of Access Extension would be available



iii) The term “Material Damage Proviso”

iv) Declaration Basis of Cover.

(16 Marks)

- c) You are dealing with a claim for fire damage that occurred at a ladies fashion retailer in January 2018. Your Principals’ Policy covers both material damage and business interruption, with a twelve month indemnity period applying to the latter. Due to the damage that has occurred, it is estimated that the shop will be closed for about two months whilst building repairs are completed.

Your enquiries have established that the Sums Insured against the various heads of cover, including business interruption, are all adequate apart from stock, the Value at Risk being confirmed at £100,000 against a Sum Insured of £75,000. You explain to the shop owner the application of average and that effectively she will receive only 75% of the stock claim, initially estimated at £50,000. The position is accepted but the Insured then raises the following issues:

Due to the shortfall in the stock claim, she will not be able to acquire her normal range of stock for the forthcoming summer sales period and this will impact adversely on her turnover during this time.

In addition, and due to the closure of the shop in the aftermath of the fire, she will be left with some undamaged seasonal stock which she may subsequently only be able to sell at a significantly reduced price.

She expects that any losses arising from these issues will be reimbursed within the scope of the Business Interruption Claim. What advice do you provide to her?

(12 Marks)

40 MARKS



QUESTION PC 1

You are instructed by Insurers to deal with a claim under a Policy they have issued to Associated Property Investors Ltd covering buildings (including landlord's fixtures and fittings therein and thereon) as well as loss of rent.

The building is a purpose-built, modern, portal framed warehouse/distribution centre with offices at first floor level (on a mezzanine floor) across the front of the building.

In November, the previous tenants vacated the premises upon expiry of their lease and the Insured employed ABC Contractors to undertake refurbishment works to enable the premises to be re-let. The contract was let under a JCT Minor Works Form*, with a Contract value of £125,000. It commenced on 10th December with a completion date of 20th February. The work was largely cosmetic, comprising redecoration throughout, upgrading the heating boiler and replacing the roof lights. At night and at weekends when the contractors were not working, the site was protected by a security guard from an independent company employed by the Insured.

During the night of 18th January, the security guard was confronted by a sizeable group of travellers and, being outnumbered, failed to prevent them making an entry. By the time the Police arrived, the travellers had gained full entry to the premises and secured the boundary. The Police decided that this was a civil property matter and withdrew.

Due to the normal process of Law, it took the Insured two weeks to evict the occupants, during which time they utilised the warehouse as a tip for waste material. On the final weekend, they also stripped the warehouse of all cables and copper pipework, stole central heating radiators in the office areas and damaged sanitary fittings and glazing.

Cover is granted under a Property Investors' Policy as follows:

Buildings	Sum Insured £3,450,000 (Declared Value £3,000,000)
Rent Receivable	Sum Insured £1,080,000 (36 Months' Maximum Indemnity Period)

- a) Following the incident, the Insurers insist that the level of security is increased to 24 hours and there is at least one dog handler whilst the building is unoccupied pending the commencement of the reinstatement works. The period between the incident and recommencement of the works is 6 weeks and the Insured submit a claim for these security costs at £19,200. The Insured also claim for legal costs incurred in evicting the occupants. How would you deal with these items and why?
(10 Marks)
- b) The Insured state that at the time of the incident there were contractor's materials on site comprising the roof lights, the boiler and some new sanitary fittings, all of which were to be utilised in the refurbishment of the building. The Insured ask whether they can claim for these items. What advice would you give them and why?
(10 Marks)
- c) The reinstatement works resulting from the incident meant that the original completion date of 20th February was impossible to achieve and completion eventually occurred on 20th May. Consequently, the Insured submitted a loss of rent claim for the three additional months, amounting to £99,000. Explain how you would deal with this item and why.
(10 Marks)
- d) The Insured state that, as they already had a contractor on site at the time of the incident, it would be their preference for that contractor to undertake the reinstatement works as opposed to going to competitive tender. What are the advantages and disadvantages of this approach from the Insurers' perspective and how would you ensure that the costs for the reinstatement work were competitive if the reinstatement works were not tendered?
(10 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 PC 2

You are appointed by Insurers to investigate and adjust a fire claim that has occurred at the premises of Security Construction Ltd, who are manufacturers of security doors and frames, primarily for housing associations and local authorities. The doors are manufactured from timber with a powder-coated steel external lining and are designed to have the appearance of a normal timber front door. The Insured is a nominated supplier for a number of housing associations and manufacture doors in batches of between 50 and 500 for refurbishment contracts and new builds.

The Insured's raw materials comprise solid timber door "blanks" that are cut to size and both the doors and the external steel lining are then drilled to accommodate the handles and locking mechanisms using specialist computer-aided equipment.

The Insured occupy a purpose-built, single storey, light industrial unit under the terms of a 20 year full repairing (but not insuring) lease at a rental of £36,000 per annum. Cover is provided under a Commercial All Risks Policy as follows:

Tenant's Improvements, Fixtures and Fittings	£75,000
Computer System	£10,000
Machinery, Plant and All Other Equipment	£600,000
Stock and Materials in Trade	£500,000
Business Interruption (12 months' Maximum Indemnity Period)	£1,800,000

The policy is subject to a Waste Warranty requiring all timber shavings to be removed from the building daily and stored in a steel container in the rear yard pending collection.

The fire occurred overnight when the building was empty, and the extent of damage is such that the forensic scientist advises you (at the first visit) that the cause of the fire may be impossible to determine.

- a) Describe in detail the enquiries/investigations you would undertake into cause. What other lines of enquiry would Insurers expect you to undertake?

(15 Marks)



- b) Describe the steps you would take, and why you are taking them, from the date of your first involvement to completion of the claim to restore the business.

(10 Marks)

- c) The extent of damage is such that it is difficult to identify individual elements of the stock or undertake a physical count. Set out in bullet point format how you would evaluate the stock claim.

(15 Marks)

40 MARKS

QUESTION PC 3

You have been appointed to deal with a fire loss that occurred at a fish and chip restaurant in a popular seaside resort on 3rd May 2017. The fire was discovered at 2345 hrs just as the staff were clearing up in preparation to close the restaurant. It appears to have originated in the kitchen area, in the vicinity of the frying range. Unfortunately, this area was extensively damaged, together with the remainder of the equipment in the adjacent kitchen area, and there is smoke damage to varying degrees throughout the remainder of the premises. As a result of the extent of the damage, the restaurant will be closed until the repairs are completed. The Insured occupy the premises under the terms of a full repairing lease which requires the landlord to insure the premises for its full reinstatement value, in addition to which the landlord must also insure three years' loss of rent, being £180,000.

The Comprehensive Restaurant Policy issued by your Principals provides cover for trade contents, tenant's fixtures and fittings (all on a reinstatement basis), stock and business interruption (gross profit basis). The sums insured are adequate. The Policy is subject to a "Cooking Range Warranty".

- a) What enquiries would you make in relation to cause and why?

(10 Marks)

- b) The restaurant was set out over three floors and food was delivered to each floor from the ground floor kitchen via a 1 cubic metre capacity stainless steel food lift. As well as carrying food, the lift was also used to return the used crockery and cutlery to the kitchen for washing. You are contacted by the Adjuster representing the buildings Insurer to update you following a visit by the Food Standards Agency. They have made it clear that, under current regulations and to avoid cross contamination, it is no longer permissible to use the same lift for transporting food from the kitchen as is used for the dirty dishes and cutlery. As a result, it is now necessary to have two separate lifts. The options are (a) to place two smaller lifts in the same lift shaft or (b) to maintain the existing lift size and construct another shaft. The buildings Adjuster has suggested that the costs involved in complying with this statutory notice should be dealt with by your Principals. How would you approach this part of the claim? Detail what information or documentation you would require in substantiation.

(10 Marks)

Please turn over

- c) Following discussions with the landlord's Adjuster, you ascertain that the building works will take sixteen weeks to complete, but this could be reduced to twelve weeks with overtime working during the evenings and weekends. The cost of the premium time element would be £12,000, but this would enable the Insured to reopen the restaurant four weeks earlier.

The Insured's most recent accounts contain the following information:

	Year 31 December 2009 £	Ended £
Turnover		350,000
Opening stock	1,200	
Purchases	90,300	
Less closing stock	<u>1,500</u>	
Cost of sales	90,000	
Staff and casual wages	<u>72,000</u>	
		<u>162,000</u>
Gross profit		<u>188,000</u>

The Insured advise you that, in the 6 week period leading up to the fire, weekly takings had varied, but the average was £8,000.

Advise what course of action you would take in relation to the reduction of the reinstatement period, detailing your reasons.

(10 Marks)

- d) Various members of the Insured's staff submit claims for damage to clothing and shoes that was sustained when they assisted during the initial cleaning/salvaging operations. How would you approach this aspect of the claim and what enquiries would you make?

(10 Marks)

40 MARKS