

Chartered Institute of Loss Adjusters

**Associateship Examinations
2004**

**Paper C2
Application of the Principles of Insurance**

Answer ALL questions

Total Marks for the paper 200

Question 1

You are acting for Insurers under a Standard Fire Policy which provides cover for Machinery, Tenants Improvements and Stock.

In note form outline to your Principals their liability for the following:

- i. Stock belonging to one of the Insured's customers. There are no written contract terms between the parties.
- ii. Replacement of the shopfront to a premises in a shopping mall following a major break in. Would your views be different if the premises were in a high street location and if so, why?
- iii. Replacement of a suspended ceiling following an escape of water, plus redecoration of the damaged rooms and electrical repairs.
- iv. Manufactured goods awaiting delivery for which no payments have been received.
- v. Fire damage to the air conditioning system installed by the landlord but extended and maintained by the tenant.

TOTAL MARKS : 40 divided equally

Question 2

(a) Under the ABI Rules on Contribution define the following:

- i. A subsisting insurance
- ii. Independent Liability
- iii. Contribution
- iv. Loss

20 Marks divided equally

(b) Calculate the independent liabilities for the following loss:

Policy A: Insured is a tenant.

Sum Insured £50,000 subject to Average. Excess: £500

Policy B: Insured is the Landlord

Sum Insured £65,000 subject to Average. Excess: £2,500

Value at Risk £75,000

Loss £12,500

10 Marks

(c) Outline the provisions of the Contribution Condition of the Standard Fire policy.

10 Marks
TOTAL MARKS: 40

Question 3

Following a fire at a tenanted office building you are appointed by the Insurers of the landlords to adjust the loss.

The landlord occupies 50 % of the building with a single tenant in the remainder.

Cover is provided under a Standard 'All Risks' Policy with a Sum Insured for Buildings including Landlord's fixtures & fittings of £450,000 and a limit for Fees of £40,000. Loss of Rent is covered for £100,000 with a 12 month indemnity period.

You discover that the fire spread from an adjacent motor trader where welding works were being carried out by an unsupervised apprentice on the petrol tank of a car.

Give your reasoned advice to Insurers regarding policy liability for the following:

- i. The roof of the building has been seriously damaged and the surveyors want to erect a temporary roof to protect the building and its contents.
- ii. Redecoration of common parts plus the tenanted second floor offices.
- iii. Employment of security guards until the building has been repaired.
- iv. The tenant's lease is subject to a cessor of rent clause, which applies after 30 days. A rent claim is submitted by the landlord for 6 months loss of rental at £65,000.
- v. Advise Insurers on possible recovery from the motor trader citing any relevant statutes and case law

TOTAL MARKS: 40 divided equally

Question 4

Following severe flooding you are appointed by Insurers to deal with a loss from a factory producing food products.

The property is insured under a Standard 'All Risks' Policy with cover for the Reinstatement Memorandum and Public Authority Clause.

The Sums Insured are:

Buildings £500,000
Plant Machinery and AOC £250,000
Stock: £100,000
Business Interruption is insured elsewhere

The premises were flooded to depth varying between 100 & 200mm.

What enquiries would you make and what advice would you give Insurers on the following:

- i. There is a warranty requirement that stock will be stored a minimum of 100 mm off the floor. It is stored on pallets 100 mm off the floor but water in the stockroom varied in depth from 100mm to 150mm.
- ii. Since the factory came into operation various changes have taken place in European Union legislation regarding food hygiene. The local authority requires these rules to be implemented when reinstatement takes place which will increase the cost of works in the damaged and undamaged areas by £50,000.
- iii. A food processing machine that is critical to the continued success of the business is irreparably damaged and a replacement can be obtained from Japan on six month delivery. For a premium payment delivery of a similar but higher specification machine can be achieved in three months.
- iv. Some of the stock is tinned food and appears to be unaffected by the flood water. Insurers wish you to dispose of the salvage. Advise Insurers on what actions should be taken and potential difficulties that might arise.

TOTAL MARKS: 40 divided equally

Question 5

In each of the following cases how would you calculate indemnity and what enquiries would you make to establish quantum and value?

- i. Replacement of two, three year old laptop computers and a one year old desktop pc.
- ii. Theft of cigarettes and tobacco from a village shop.
- iii. Fire damaged grain in an agricultural merchant's store.
- iv. Replacement of the storm damaged roof structure and covering on a Grade 1 listed mansion.
- v. Water damaged sheet and rolled steel at a steel stockholders.
- vi. Purpose made and fitted kitchen units in a flood damaged house. The property is underinsured.
- vii. Fire damage to a building undergoing renovation. Your Principal's policy covers the existing building but not the works.
- viii. Plant and machinery in a factory that is under the control of liquidators.

TOTAL MARKS : 40 divided equally