

The Chartered Institute of Loss Adjusters

Associateship Examination 2005

Paper C2

Application of the Principles of Insurance

3½ Hours

Maximum Marks 200

Answer all questions

Where appropriate, answers should make reference to relevant case law or statute

Question 1

Outline the purpose of the following areas of legislation and explain with examples how they have an effect on claims: **(Answer 5 parts only)**

- a) Fires Prevention (Metropolis) Act 1774
- b) Hotel Proprietors Act 1956
- c) Third Parties (Rights against Insurers) Act 1930
- d) Law of Property Act 1925
- e) Water Industry Act 1991
- f) Unfair Contract Terms Act 1977

40 Marks divided equally

Question 2

- a) Define Contribution at Common Law and give an example of how this can apply to an insurance claim.
- b) Outline the provisions of the Contribution Clause under a Standard Fire Policy
- c) Define Contribution under the ABI Rules on Contribution
- d) Define a Subsisting Insurance under the ABI Rules on Contribution and give an example
- e) Define Independent Liability under the ABI Rules on Contribution
- f) List five examples of when contribution **will not arise** under the ABI Rules on Contribution
- g) Set out and using your own figures, calculate an Independent Liability apportionment and give an example of when this type of apportionment would be used.
- h) How is average dealt with under the contribution terms of the ABI Rules on Contribution?

40 marks divided equally

Question 3

In Muncaster a riot takes place in an inner city area leaving extensive damage to both houses and businesses.

You are appointed to deal with a claim for AY Music Limited a supplier and manufacturer of musical instruments. Their shop/workshop is ransacked with the workshop situated at the rear of the premises being set on fire.

The property is owned by the Insured and the first floor living accommodation is tenanted, being occupied by students.

The property is insured under a Standard Fire and Special Perils Policy and the Sums Insured are:

Building:	£450,000
Stock:	£200,000
Materials of Trade:	£ 50,000
Business Interruption:	£400,000 (12 month Indemnity Period)
Rental:	£ 10,000

A claim is submitted under all heads of the policy.

Answer in note form the following:

- a) How would you assess the extent of damage/loss and calculate the Value at Risk for all heads of the claim.
- b)
 - (i) What steps would you take to pursue recovery?
 - (ii) From whom would you seek recovery?
 - (iii) Outline the relevant provisions/requirements of any applicable legislation
- c) The building repairs are estimated at £250,000 and are based on a single 'global estimate.' How would you check quantum and verify costs?
- d) What steps would you take to mitigate the Business Interruption Loss and why?
- e) A proposal is submitted to accelerate the works. Under what circumstances would you agree to this and how would you verify that it was a viable proposal?

40 marks divided equally

Question 4:

A claim is presented under a Standard All Risks Policy for severe storm damage to the roof of an office and separate warehouse unit owned by ABC Developers.

As a result of flooding following the storm, a bridge on the adjacent public highway is seriously damaged and vehicular access to the site is prevented for 10 days.

The office, which is a Grade 2 listed building dating from 1800, has two storeys and is traditionally built with solid stone/brick walls and a pitched timber roof covered with Cotswold Slate.

The adjoining warehouse unit was built in the 1950's and has a steel frame with a steel trussed rafter roof covered with corrugated asbestos cement sheeting.

The offices are occupied by the Insured on the ground floor with a tenant (an environmental consultant) on the first floor.

Separate tenants occupy the warehouse which is used as a discount furniture outlet. You discover that in addition to selling furniture the tenant also manufactures some furniture on site.

The underwriters understand the warehouse is used solely for furniture storage.

The policy is in the name of ABC Developers and covers:

Buildings
Stock
Landlord's Fixtures and Fittings
Plant Machinery and All Other Contents
Business Interruption
Loss of Rental

The Sums Insured are deemed adequate.

A claim is presented for the following:

- a) Replacement of the asbestos cement sheet roof
- b) Repairs to the Cotswold Slate roof of the offices.
- c) Repairs to the first floor offices and common parts due to water penetration
- d) Loss of rental for the offices and warehouse
- e) Damage to a fixed space heater in the warehouse
- f) Office equipment belonging to the Insured stored in a container in the warehouse
- g) Damage to stock in the warehouse belonging to both the Insured and tenant
- h) Denial of access

Explain how you would assess policy liability and quantum for each head of claim and outline any particular difficulties you would expect to arise and how you would overcome them.

40 marks divided equally

Question 5:

- a) Outline the provisions of the Public Authorities Clause and explain its bearing on the calculation of the Sum Insured.

(10 marks)

- b) Outline the provisions of the Reinstatement Memorandum and explain how, in the event of underinsurance, Average applies. (Use a worked example)

(10 marks)

- c) Outline the provisions of **four of the following** clauses/extensions to cover

- i. Contract Price Clause
- ii. Debris Removal
- iii. Escalator Clause
- iv. Professional Fees
- v. All Other Contents Clause
- vi. Day One Basis (Reinstatement cover)

(20 marks divided equally)

40 marks