

The Chartered Institute of Loss Adjusters

Associateship Examination 2006

Paper C2

Application of the Principles of Insurance

3½ Hours

Maximum Marks 200

Answer questions 1 – 4 and one of questions 5 - 6
Where appropriate, answers should make reference to relevant case law or statute

Question 1

a) Outline in note form the provisions of the Subrogation condition of the Standard Fire policy. (5 Marks)

b) You are appointed by ABC Insurers to deal with a claim under a domestic policy, submitted by their Insured Mr & Mrs Jones for fire damage at a cottage in Melchester.

The cottage dates from the 16th Century. Its structure consists of a timber framework with the external framework being infilled with brick. The building has a pitched tiled roof. It is a Grade II listed building (see below). The building is the centre cottage of a terrace of 5 similar properties.

The fire occurred in the roof whilst redecoration work was being carried out by Jackson Decorators who had used a blow torch to burn off paintwork on timberwork adjoining the gutters.

- (i) Outline in note form the investigations you would make into the cause and the recommendations you would make to your Principals regarding policy liability/recovery. (10 Marks)
- (ii) How would you assess quantum and what difficulties would you anticipate with reinstatement? (10 Marks)
- (iii) Claims are submitted against your Principal's Insured by the owners of the two adjacent cottages for fire and smoke damage. One owner is insured and the other is uninsured. What advice would you give Principals regarding these claims? (5 Marks)
- (iv) Draft a letter to Jackson Decorators holding them liable and outlining the reasons for your arguments. (10 Marks)

Total: 40 Marks

NOTE FOR NON UK CANDIDATES

A listed building is a building of historic importance that is protected by law. The level of its importance is governed by the grading, with Grade I being the highest.

Restrictions are placed on works that can be carried out to such buildings and in the event of damage the property has to be reinstated to its original style using comparable materials. Reinstatement therefore tends to be more expensive and can take longer.

Question 2

a) How is debris removal dealt with under a domestic policy and what restrictions/limits apply? (5 Marks)

b) How are debris removal costs dealt with under a Standard Fire Policy with extensions and what restrictions/limits apply? (10 Marks)

c) You are appointed by XYZ Insurers to investigate a fire at a 19th Century former industrial property (now used as a warehouse) in Brancaster and the associated damage in the adjacent offices. Both properties are Grade II Listed properties. (See below)

The warehouse is owned by Phoenix Utilities and is leased by One Storage who rent out space in the building for other businesses to store files etc.

The building has solid stone external walls and a steel framed pitched roof covered with asbestos sheeting. Internally there are three floors with a timber boarded finish supported off steel beams.

Supported off part of the front gable is the roof of a two storey office building owned by Smith and Partners, Consulting Engineers. Their property is also stone built with a pitched slate roof. It has a very high standard of original finishes hence the Grade II listing. The property is also insured by XYZ.

The severity of the fire is such that the roof and internal floors of the warehouse collapse into the building although the external walls remain intact. The local planning authority is not prepared to allow the external walls to be demolished, thus preventing easy removal of debris and delaying reinstatement of the premises.

Damage to the offices is limited to smoke contamination at first floor level and movement in the roof adjacent to the gable wall.

The policies for Phoenix's and Smith's cover are written on an All Risks basis and cover the buildings, contents and business interruption.

i) In view of the problems with debris removal what advice would you give your Principals and their Insureds about this aspect? Also comment on the effects on the material damage and business interruption claims. (5 Marks)

ii) The front gable wall is unstable which has affected the roof of the offices. What steps would you recommend be taken and which policy should pay and why? (5 Marks)

iii) One of the means of escape from the first floor offices used by Smith and Partners is via a fire door in the gable wall leading onto a steel staircase in the warehouse. This staircase has been destroyed.

What advice would you give your Principals regarding reinstating the means of escape, given that without it, part of the offices cannot be used. (5 Marks)

iv) The asbestos sheet roof covering 'exploded' during the fire, contaminating not only the site but also some adjoining properties and highways. In what areas would you recommend payment for debris removal and why? (5 Marks)

v) What liability does the insured have for any contamination resulting from the fire? (5 Marks)

Total: 40 Marks

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Question 3

You are dealing with a claim for insurers in respect of a village cricket club that owns a clubhouse built of cement block with a timber and felt mono-pitched roof. The roof has been poorly maintained, but the interior has recently been renovated with a new fitted carpet in the bar and lounge, and a new suspended ceiling installed.

Overnight, 35mph winds completely blew away a strip of felt off the roof, and rainwater waterlogged the fibre board decking, ran into the bar area damaging decorations and the ceiling tiles, and saturated the carpet in the bar.

You are acting for Insurers under a Commercial Comprehensive policy with accidental damage cover for Buildings, Trade Fixtures and Fittings and Stock. There is a Reinstatement Memorandum.

During your inspection, you find that the felt had been repaired previously, and the bond had been weakened with age.

In note form outline your views on insurer's liability for the following, and briefly explain your reasons :

- i. The roof structure.
- ii. Replacement of the suspended ceiling, plus redecoration of the damaged rooms.

- iii. Costs of electrical repairs by the club members carried out by a club member to save costs.
- iv. Replacement of the carpet in the bar and lounge.
- v. Damage to the score board caused by the felt being blown onto it.

TOTAL MARKS : 40 divided equally

Question 4

Following a fire, you are appointed by Insurers to deal with a loss at a factory producing water treatment chemicals.

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

The Sums Insured are:

Buildings £500,000

Plant Machinery and AOC £80,000

Stock: £150,000

Business Interruption is insured for £500,000 over 24 months maximum indemnity.

The sums insured were accepted as adequate for the risk as proposed.

The fire arose as a result of static electricity being generated during the process of mixing powdered chemical and water in an industrial vat*. Half of the working area was severely damaged and the remainder affected by heat and smoke.

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

- a) Repairs to the steel portal framed roof, and the insulated lining to the unburned section
- b) Repairs to the overhead three-phase power lines attached to the building, and running from the supplier's pole to the consumer's distribution board and meters.
- c) Liability for the chemicals undergoing the mixing process in the vat.
- d) As a result of the fire the Health and Safety Executive (HSE)* took an interest in the re-designing of the vat and demanded major modifications before they could recommend the Council Planning Officer to accept the new proposals. This escalated the cost to almost double the book value of the machine, and the insured made a claim for the additional sum.

e) Whilst the HSE discussions were in progress, the insured secured certain lucrative commissions which required them to increase their productive capacity immediately. The insured's operation was almost unique and they ask you to authorise costs of outsourcing the mixing operation, and paying engineer's overtime once the HSE had approved the machinery plans to accelerate the repair programme.

TOTAL MARKS: 40 divided equally

NOTE FOR NON UK CANDIDATES

**vat - "a large tub, cistern or other vessel for holding liquids or holding something in liquid in process of manufacture"*

**Health & Safety Executive (HSE) - The HSE's mission is to protect people's health and safety by ensuring risks in the workplace are properly controlled.*

ANSWER ONE ONLY OF QUESTIONS 5 & 6

Question 5

- a) Outline in note form the provisions of the Arbitration Clause under the Standard Fire Policy and, using examples, illustrate how it would operate. (10 Marks)
- b) (i) What cover is provided for Riot and Civil commotion under the Standard Fire Policy? (2 Marks)
- (ii) What is the difference between riot and civil commotion? (4 Marks)
- (iii) How does the Public Order Act 1986 define riot? (4 Marks)
- c) Outline, in note form, the provisions of the Sprinkler Leakage extension. (10 Marks)
- d) Outline, in note form, the provisions of the Public Authorities Clause. (10 Marks)
- Total 40 Marks**

Question 6

Write brief notes on the following:

- a) *Uberrima Fides*, indemnification *aliunde*, *force majeure*.
- b) *Castellain v Preston* (1883)
- c) Stock reconciliation
- d) Designation Clause
- e) Storm as defined
- f) *Pleasurama v Sun Alliance & London Insurance Ltd* (1979)
- g) Proximate Cause
- h) Valuation of work in progress

TOTAL MARKS: 40 Divided equally