

# **The Chartered Institute of Loss Adjusters**

**Associateship Examination 2007**

**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**

**PLEASE ENSURE THAT QUESTION NUMBERS ARE ENTERED CLEARLY AND IN FULL ON THE COVER OF YOUR ANSWER BOOK AND IN YOUR ANSWER BOOK**

## Answer all Questions.

### QUESTION 1

You are appointed by ABC Insurers to deal with a flood damage claim in Borchester following torrential rain storms during an 80 hour period which resulted in the River Am overtopping its banks and flooding the surrounding area.

A local factory complex leased by Argon Computers under a fully repairing and insuring lease is affected. The facility comprises:

- i) A two storey steel framed and brick clad office building located adjacent to the river.
- ii) A portal framed, corrugated sheet metal clad, warehouse building which contains both finished goods for delivery and also components awaiting assembly.
- iii) A factory/assembly building of similar construction to the warehouse.

During the initial period of heavy rain the offices are flooded to a depth of 1 metre but the other facilities are unaffected. As water levels rise the level of water in the offices increases to 2 metres and 75 hours after the flood started, following a further period of heavy rain the warehouse is affected with water building up to a depth of 750 mm. The insured took steps to protect the factory/assembly building with temporary bunds and this proved effective.

At the time of the incident the quantity of manufactured stock in the warehouse was at a higher level than normal due to a major order being completed. Stock was stored on both shelving and in packages on the floor.

The policy is written on a Standard All Risks basis although due to a previous flood 5 years ago a stillage warranty applies.

- a) Describe in **note form** the steps you would take to establish the extent of damage in the office building to both building and its contents. What steps do you consider will be necessary to repair the property and restore the contents in order to bring it back into full operation? (You may make assumptions as to the method of construction but these must be explained in your answer.)  
(10 Marks)
- b) What policy conditions and/or warranties do you consider will apply to the claims for the offices and warehouse?  
(5 Marks)
- c) Assuming some of the finished goods are salvageable what steps would you take to deal with these?  
(5 Marks)

- d) The claim presented for the office and warehouse includes:
- i) Replacement of a leased colour photocopier
  - ii) Redecoration of the whole stairwell and first floor corridor in the office building
  - iii) Replacement of the server at ground floor level and all connected data cabling throughout the building, as the manufacturers refuse to guarantee its continued uninterrupted operation
  - iv) Costs associated with protecting the factory building
  - v) The policy is subject to an excess of £25,000 for flood damage. How many excesses apply and why?

Explain in **note form** how you will deal with each of these aspects.

(10 marks split equally)

- e) The buildings are separately specified in the policy with individual sums insured. The Sum Insured for the offices is £200,000 yet the Value at Risk is put at £350,000. How would you verify the sum insured and what effect would underinsurance have on the claim? Using your own figures show how this would be calculated.

(10 marks)

**TOTAL: 40 Marks**

## **QUESTION 2**

A fire occurs in a car repair workshop owned by Quality Car Repairs. Their policy is written on a Fire and Special Perils basis.

The building is owned by the Insured and consists of a two storey brick built former factory building dating from the 1930's with a concrete ground floor and a timber first floor. The roof consists of steel trusses clad with corrugated asbestos sheet.

The ground floor is used as both the car repair workshop and also contains a paint spray booth installed 3 weeks before the fire.

At the time of the incident there are four cars being serviced/repared plus two vintage Rolls Royce saloons which are being restored. The two Rolls Royce have been in the custody of the Insured for 3 months.

The fire starts in the spray booth at lunchtime and spreads quickly to the rest of the workshop. Two cars are destroyed and the others including both Rolls Royce are severely smoke damaged.

The fire burns through the first floor timbers at one end of the building and also damages part of the roof structure where some of the asbestos sheets 'explode' whilst others crack in the heat necessitating renewal of the roof.

Asbestos fragments and fibres enter the building and debris is spread across an adjacent children's playground.

- a) Describe in **note form** the enquiries you would undertake and the information you would seek during your initial investigations. (10 marks)
- b) Do you consider the question of subrogation arises and if so against whom? What steps would you take to secure evidence and to pursue the matter? (10 marks)
- c) What legal responsibility does the company have for the customers' cars at the premises? (5 marks)
- d) The owner of the two Rolls Royce had not insured the vehicle whilst in the Insured's custody and seeks recovery of the repair/restoration cost. How will the policy address this? (5 marks)
- e) What steps need to be taken to remove the asbestos and what responsibility does the Insured have for the adjacent site? (10 marks)

**TOTAL 40 Marks**

### QUESTION 3

**Answer 5 parts only**

- 1: Define Insurable Interest; give 4 examples of how this can arise and cite any relevant case law.
- 2: In the current market does the principle of utmost good faith still apply? Discuss.
- 3: Define 'Subsisting Insurance' and 'Independent Liability' under the ABI agreement.
- 4: What relevance does the case of Mark Rowlands v Berni Inns have to insurance claims?
- 5: Outline in **note form** the decision in North British and Mercantile v London Liverpool and Globe and explain its relevance to insurance claims.
- 6: What relevance do material facts have to an underwriter and give 4 examples of facts that might influence a prudent underwriter.

**MAXIMUM 40 Marks split equally between each part**

#### **QUESTION 4**

##### **Answer 5 parts only**

- 1: Outline in **note form** the provisions of the Reinstatement Memorandum
- 2: Explain in **note form** the provisions of the Third Parties (Rights against Insurers) Act with particular reference to claims. Give an example of when the Act would apply.
- 3: Outline in **note form** the provisions of the Fires Prevention (Metropolis) Act and explain its relevance to insurance claims.
- 4: Explain the difference between a policy excess, deductible and franchise
- 5: Outline in **note form** the provisions of the Sprinkler Leakage extension.
- 6: Explain using a worked example, the difference between the Condition of Average and Special Condition of Average

**MAXIMUM 40 Marks split equally between each part**

#### **QUESTION 5**

##### **Answer 5 parts only**

In **note form** outline how you would deal with the following claims and detail the enquiries you would make plus the policy and liability considerations that need to be taken into account as well as any subrogation issues:

(NOTE: Where details are not specified you may make realistic assumptions regarding policy coverage/limits but should detail these in your answer.)

1. Theft of £4,000 of jewellery and valuables stolen from a locked hotel room but not stored in the room's safe. The hotel is in the UK.
2. Theft from a house in a remote country area the property is alarmed and an alarm warranty applies.
  - a) The alarm has malfunctioned and cannot be set. The alarm maintenance company were called out 7 days ago but have not yet visited site despite further calls to them.
  - b) The alarm has malfunctioned and cannot be set. The alarm maintenance company were called out 7 days ago but have been unable to reach site due to severe snow storms.
  - c) The alarm was set but due to a major power failure in the area following

floods, the alarm is not functioning as the back up battery has discharged.

3. Theft from a grocer's shop involving theft of a free standing floor safe containing cash and cheques to the value of £3,000. Additionally £300 was stolen from a cash till.
4. Theft from a locked and alarmed estate car parked outside a restaurant in a French holiday resort. The items, which comprise camera equipment worth £5,000 were in the rear of the car and covered over by the car's built in luggage cover.

The Insured is on a pre booked touring holiday and has a travel policy arranged by the tour operator. Cover is also provided for unspecified valuables worldwide under his household contents policy and his bank automatically provides travel cover which includes trips abroad for no more than 30 days per calendar year.

5. Following the installation of a new toilet in a tenanted office premises which is located on the first floor of a mixed office and shop development, a joint fails and water escapes to flood the shop below which is in separate ownership.

The installation work was carried by a plumber appointed by the tenant of the office but paid for by the landlord.

You are acting for the shop owner's insurers.

6. Following heavy rainfall the basement of a house is flooded. Situated within the basement is a wine cellar containing both vintage wine and everyday wine. The labels on most of the bottles were washed off and some bottles were broken.

The owner claims for replacement of all the wine despite the fact most bottles are intact although without labels.

**MAXIMUM 40 Marks split equally between each part**