



The Chartered Institute of Loss Adjusters

Associateship Examination 2011 (April)

Paper C2

Application of the Principles of Insurance

3 ½ 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 instructed to deal with a water ingress claim for the Tenant of an office block who occupies a large fitness centre situated in the basement of the building. Your Principals insure only the Contents including Tenants' Improvements. The Landlord has effected separate insurance for the Buildings including Landlord's Fixtures and Fittings.

Prior to the occupation by the Insured, the basement was occupied as a wine bar. Some of the features present then, notably the woodblock flooring and some of the mirrors, were retained by the Insured when the premises were refurbished and upgraded for use as a fitness centre.

There has been serious damage as a result of an escape of water from the Water Authority's water main in the adjacent road. The fitness centre was flooded to a depth of some two metres and, as a result, almost every item of contents and all fixtures and fittings and tenants improvements within the basement will require replacement or refurbishment.

(In answering this question it is not necessary to consider the adequacy of the sum insured).

- 1) On your first visit to the premises what documentation would you request and what enquiries would you make to determine who would be responsible for the affected items?

(10 marks)

- 2) What do you understand by the following terms:

- a) Landlords and Tenants Fixtures
- b) Tenant's Improvements
- c) In adjusting the claim, how would you distinguish between a fixture and an improvement, using accepted tests?

(15 marks)



3) Briefly, advise whether and if so why the following items fall under the Landlord's or the Tenant's policy?

- a) Woodblock flooring
- b) Mirrors lining the whole of one wall
- c) Purpose built lockers in the changing rooms
- d) Towel rails adjacent to the shower rooms
- e) Electrical wiring and ceiling fittings

(5 marks)

4) Draft a short letter to the Water Authority holding them liable for the escape of water and resultant damage, setting out reasons for your arguments and any legal cases and statutory instruments applicable. **Do not write your name anywhere in the letter.**

(10 marks)

40 MARKS

Question 2

A riot in an inner city area has occurred leaving extensive damage to both dwellings and commercial businesses.

You are appointed to deal with a claim for a small paper processing operation that both supplies and produces paper cartons. Their shop is ransacked and the workshop at the rear set on fire.

The property is insured under a typical Fire and Special Perils policy with the following Sums Insured:

Buildings	£ 500,000
Stock	£ 250,000
Materials of Trade	£ 75,000
Business Interruption	£ 500,000 (12 month indemnity period)

A claim is submitted under all heads of the policy.

- a) How should the extent of damage/loss under each head be assessed and explain how a realistic reserve for your Principals should be established.

(8 marks)

- b) The building repairs are estimated at £250,000 but are based on a single "global estimate". How should quantum be checked and costs verified?

(8 marks)



- c) What steps should be taken to mitigate the potential Business Interruption loss and why?
(8 marks)
- d) A proposal is submitted to accelerate the repair works. Under what circumstances should this be agreed to and how should this be verified as a viable proposal?
(8 marks)
- e) What investigations should be made to pursue a recovery and from whom should this be sought?
(8 marks)

40 MARKS

Question 3

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

The property is insured under a Standard “All Risks” policy, with applicable warranties, and cover is extended to include the Reinstatement Memorandum and Public Authority Clause.

The Sums Insured are:

Buildings	£ 1,000,000
Plant, Machinery & All Other Contents	£ 500,000
Stock	£ 200,000

Business Interruption is insured under the company parent’s global risk insurance with different insurers.

The premises were badly flooded to a depth of between 200mm and 300mm.

What investigations should be made and what advice should be given to Insurers on the following matters:

- a) The policy has a warranty requirement that stock will be stored a minimum of 200mm off the floor. You find that it is actually stored on pallets 200mm off the floor but water in the stockroom varied in depth between 200mm to 250mm.
(10 marks)



- b) Since the factory began producing there have been various changes in European Legislation that have affected the production of food products, especially in relation to food hygiene. The Local Authority now requires these regulations to be implemented when reinstatement takes place, which will increase the cost of repair works in the damaged and undamaged areas by £75,000.
(10 marks)
- c) A food processing machine that is critical to the continued operation of the business activity is irreparably damaged but an identical replacement unit can be obtained from the manufacturers with a six-month delivery time. You are told that, for a premium payment, delivery of a similar but higher specification machine can be supplied within three months.
(10 marks)
- d) A part of the damaged stock relates to tinned foodstuffs and, upon inspection, appears to be unaffected by the flood waters. Insurers have asked you (not a recovery company) to dispose of the salvage. Advise Insurers of what actions should be taken and highlight the potential difficulties that might arise.
(10 marks)

40 MARKS

Question 4

You are handling a fire loss under the ABI Material Damage Suggested Wording and an issue has arisen concerning a recovery. The Policyholder advises you that the fire is believed to have been caused by a faulty electric heater installed by Grundy and Son two days prior to the incident. Your preliminary enquiries and indeed the Fire Officer's comments support this. However, the Policyholder, Mike Tucker, has been a friend of Joe Grundy the principal of Grundy & Son and advises you that he will not be willing for any action to be taken against Grundy & Son.

Explain the policy position with particular reference to the Subrogation condition. You should explain the Policyholder's obligations as they stand both during the claim negotiation and once the claim has been settled.

(10 marks)



Handling another claim under the same policy wording you are faced with a loss for fire, however, during the fire a bottle of gas used for welding in Mr Aldridge's car workshop exploded. The loss is for fire damaged stock and explosion damage to the glass shop front. Provide an explanation of the cover.

(5 marks)

A claim is submitted under the ABI Material Damage Suggested Wording. The risk premises was struck by lightning, damage was caused to electrical machinery and power cables all falling within the description of property insured by the Policy. Briefly explain the extent of cover under the wording.

(2 marks)

Meanwhile, you receive another instruction under the same Policy wording, this time for Anthony Gillani; Mr Gillani runs a fish and chip shop. This incident relates to a small fire although considerable damage is caused to the fish and chip shop. Mr Gillani is content with your discussion regarding the fire damage Policy situation. Seeing you as knowledgeable Mr Gillani asks for further information and in particular wants to know what the position would be in the event of a nuclear incident, civil commotion or a civil war. Briefly explain what the Policy position is under each of these.

(8 marks)

Explain the provisions of the following conditions under the ABI Material Damage Suggested Wording:

- Alteration
- Warranties
- Reasonable Precautions

(15 marks)

40 MARKS



Question 5

Answer **FOUR** of the following, incorporating relevant case law and statutes where applicable (each question has 10 marks available):

- a. Contribution - what issues relating to contribution do loss adjusters need to consider when investigating and handling a property claim where a number of different policies covering the same interest and subject-matter are in existence?
- b. Repudiation of a Claim - what practical steps should be taken by loss adjusters if authorised and requested to repudiate a claim on behalf of Insurers?
- c. Witness Statements - what would be considered good practice for loss adjusters to follow when taking formal statements from witnesses during loss investigations?
- d. Mitigation of Loss - what should the handling loss adjuster be advising the policyholder in relation to his/her duties for the mitigation of loss?
- e. Alternative Accommodation - what are the pitfalls faced by the loss adjuster when handling an alternative accommodation claim following a fire or water damage loss and how are they overcome?

40 MARKS