

The Chartered Institute of Loss Adjusters

Associateship Examination 2008 (April)

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**

QUESTION 1

You are appointed by both the building and contents Insurers (separate companies) to deal with a fire claim at 27 Brook Drive, Pagelsham.

The property is a large detached house with a current market value of £1million.

The fire started in the kitchen where a washing machine, bought 1 month previously, ignited.

The kitchen has been destroyed and the fire spread laterally into the living room, dining room and hallway and also upwards into the main bedroom and the attached en suite bathroom.

There is heavy smoke logging in the remainder of the house making it uninhabitable.

The building has a cellar beneath the dining room which is used to store wine. The cellar was flooded by extinguishment water to a depth of 600mm.

The building is Insured for £800,000 and the contents £500,000. Cover is on an All Risks basis.

The limit for valuables under the contents policy is £75,000 with a single article limit of £5,000. There are also various specified items comprising jewellery and some original paintings.

- a) Outline the enquiries you would make when carrying out your initial inspection and describe the evidence you would seek to obtain. **10 marks**
- b) What immediate steps would you take to mitigate the loss and to assist the Insured? **5 Marks**
- c) What information would you seek in order to assess quantum of the building and contents claims? (You may make assumptions as to the extent of damage but must outline those assumptions.) **10 Marks**
- d) How would you apportion the alternative accommodation claim? Show calculations. (Detail your assumptions as to cover) **5 Marks**
- e) Comment on how you would deal with following items included within the claim:
 - i) Loss of jewellery from a dressing room. The loss was only discovered 5 days after the fire, as the owner's wife had been admitted to hospital as a result of the effects of smoke inhalation. **3 Marks**

ii) Claim for replacement of two original paintings that have been affected by smoke. (One is an oil and the other a watercolour) **4 Marks**

iii) Replacement of carpets throughout the house despite many having been cleaned satisfactorily. **3 Marks**

TOTAL OVERALL MARKS 40

QUESTION 2

Outline the decisions in **5** of the following cases and explain their relevance to insurance claims:

- i. Castellain v Preston
- ii. Pleasurama v Sun Alliance
- iii. Leppard v Excess
- iv. Anderson v Norwich Union
- v. Young v Sun Alliance
- vi. Harbutts Plasticine v Wayne Tank and Pump Company
- vii. Oddy v Phoenix

40 MARKS (SPLIT EQUALLY)

QUESTION 3

Answer **5** parts:

- i. Explain the provisions of the Contract Price Clause and illustrate how it applies.
- ii. Outline the provisions of the Reinstatement Memorandum
- iii. Outline the provisions of the All Other Contents Clause
- iv. Outline what you consider to be material facts and give 3 examples
- v. Outline the provision of the Public Authorities Clause and give examples of its application.
- vi. Explain the application of warranties under a policy and give three examples to show how they apply.

40 MARKS (SPLIT EQUALLY)

QUESTION 4

Outline how you would deal with the following incidents and describe the enquiries you would make, plus the policy conditions you consider to be relevant.

Answer all parts.

- a) Claim for theft of stock from a small newsagent's shop where no detailed stock figures are available.
- b) The recovery of jewellery stolen from a domestic property. The claim has been paid but reductions were made to reflect underinsurance.
- c) An outbreak of dry rot in a property flooded 9 months ago
- d) The explosion of a boiler in a factory where the cover is based on the Standard Fire Policy
- e) A claim for renewal of the whole slate roof covering to a house following storms but where physical damage is of limited extent and has been aggravated by the general condition of the roof. There is underinsurance.
- f) As a result of a fire in a nearby property your Principals' Insured cannot trade for 4 days and submits a claim under their Business Interruption Policy.
- g) The claim for loss of one of a pair of earrings of unique design with a specified Sum Insured of £10,000.
- h) The recovery aspect arising from a fire in a house where painters have been burning off old paintwork and ignited a rotten timber window frame

40 MARKS (SPLIT EQUALLY)

QUESTION 5:

You are appointed by XYZ Insurance to deal with a claim for flood damage at an office in Water Meadow Fields, Borchester.

The property has five storeys plus a basement. The basement contains car parking and plant rooms.

The building was completed 12 months ago and is owned by National Western Pension Fund (The Insured) and is let on a five year lease to ABC Bank for use as a call centre.

The flood affects the basement and ground floor as well as the surrounding area. Access to the property is prevented for 7 days.

The building was designed by consultant architects (Eos Group) and there is a suggestion, following the incident, that the design of the basement area failed to take into account the possibility of flooding of which there is a history in the area.

Policy cover is on an All Risks basis and the sums insured are:

Buildings: £12,000,000

Loss of Rental: £900,000 (18 month indemnity period)

Debris Removal: £50,000

- a) Outline in note form the enquiries you would make at the time of your initial inspection and the steps you would take to mitigate the loss. **10 Marks**
- b) The bank seeks a refund of rental for the period of the flood and the repairs (put at 9 months) plus a further 3 months for inconvenience. How would you verify this claim and what advice as to its validity would you give both the Insurers and Insured? **5 Marks**
- c) Building management control systems are located in the flooded plant room and have been damaged beyond repair. The system is critical to the ongoing use of the building. The system is manufactured in Japan and there is a 6 month waiting period for replacements.

Enquiries reveal that for an additional payment of £125,000 the manufacturers are prepared to accelerate production to reduce the period by 3 months.

Explain how you would deal with this aspect and outline your recommendations to insurers. **10 Marks**

- d) What steps would you take regarding recovery and why? **5 Marks**
- e) The Building claim includes the following:
- i) Installation of waterproof tanking in the basement and installation of damp proofing to the ground floor areas.
 - ii) Redecoration of common parts plus tenanted areas fitted out by the Bank.
 - iii) Upgrading of the basement fire alarm system to satisfy a request from the local authority.
 - iv) The cost of breaking out sections of the ground floor slab to allow removal /replacement of the boilers in the basement
- Outline how you would deal with these claims. **10 Marks**

OVERALL TOTAL: 40 MARKS