



The Chartered Institute of Loss Adjusters

Associateship Examination 2010 (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

Claim Condition 6 of the Standard Fire Policy deals with Subrogation.

- a) In the early stages of dealing with a fire claim under such a policy it becomes apparent that there is a strong possibility of a recovery against plumbing contractors who were welding pipework at the premises immediately before the fire occurred. Explain to the Insured how subrogation arises under the policy and the steps that need to be taken.
- b) Draft a short letter to Plumb-It Contractors holding them liable and set out reasons for your arguments.
- c) During the progress of the claim you are told that Plumb-It Contractors have gone into liquidation. Using legislation as a reference, what option is open to you in your recovery action? What are the potential pitfalls that you may be faced with?
- d) Following a successful recovery against Plumb-It's Liability Insurers, explain to your Principals, using appropriate case law, the allocation of recovered funds between Insurers and Insured from the recovered amount:

Loss:	£ 200,000
Recovery	£ 150,000
Net Policy Payment	£ 110,000
Excess	£ 20,000
Other Uninsured Losses	£ 70,000

40 MARKS (divided equally)



QUESTION 2

1. Explain the difference between the Reinstatement Condition under the Standard Fire Policy and the Reinstatement Memorandum, providing comprehensive descriptions and practical examples of each.

(20 Marks)

2. List the general and specific enquiries you would make for a claim for storm damage to:

- Flat felt roof
- Broken render finish on an external wall
- Collapsed chimney
- Fallen boundary wall
- Slates slipped on a pitched roof

(20 Marks divided equally)

40 MARKS

QUESTION 3

Claims Condition 5 of the Standard Fire Policy deals with Contribution.

- (a) What are the main provisions relating to Contribution under this Condition of the Standard Fire policy?

(5 marks)

- (b) Calculate the independent liabilities of each Insurer for fire damage for the following commercial building loss, showing all workings:

- Policy A: Insured is the Tenant
- Sum Insured: £ 50,000, subject to Average. Excess: £ 500
- Policy B: Insured is the Landlord
- Sum Insured: £ 75,000, subject to Average. Excess: Nil
- Value at Risk £ 100,000
- Adjusted Loss: £ 25,000

(10 marks)



(c) Under the ABI Rules on Contribution define the following:

- Loss
- A subsisting insurance

(10 Marks each)

One of the General Provisions of the Standard Fire Policy deals with Average (Underinsurance).

(d) What are the main provisions relating to underinsurance under this Provision of the Standard Fire policy?

(5 marks)

(e) Calculate the amount payable in respect of the following Building and Contents claim, where the policy is subject to Average for both Buildings and Contents, showing appropriate workings.

The Insured is registered for VAT at the standard rate. An Excess per section of £ 250 applies.

Buildings Sum Insured: £250,000.00
Contents Sum Insured: £50,000.00

Buildings value at risk: £300,000.00
Contents value at risk: £95,000.00

Adjusted Loss - Buildings: £110,000.00 net of VAT
Adjusted Loss - Contents: £37,600.00 inclusive of VAT @ 17.5%

(10 marks)

40 MARKS

QUESTION 4

The risk address is a substantial 4 bedroom detached house in Cumbria that was flooded to a depth of 2 metres. The waters subsided after thirty hours. The Insurers (who provide cover under a combined Buildings and Contents Policy) immediately and directly appointed damage control contractors to undertake an initial clean up and building contractors, from their approved panel, to establish what repair work was required.



After a few days Insurers received from the building contractors a priced schedule exceeding £50,000 and the contractors are now requesting authority to proceed. Due to the size of the loss you are then instructed to handle the claim.

Together with the claim papers and builder's schedule, you receive a copy report from the damage control firm who advise that they have conducted asbestos testing and traces have been found to be positive in the textured artex ceiling throughout the damaged ground floor and the kitchen floor tiles. The damage mitigation company has obtained costs to remove all the ground floor ceilings and kitchen floor tiles and are awaiting authority to proceed. They are unable to commence drying until removal of the asbestos has been completed.

The Insured, Mr and Mrs Gillani, and their three children are presently staying with friends. Their two dogs have been placed in kennels.

You visit the dwelling house the following day and meet Mr Gillani. He is extremely agitated about the matter and complains at the amount of time it has taken for someone to visit him. He also advises that, prior to the incident, he had recently carried out extensive refurbishment works to the property costing £45,000 and insists that his preferred contractor, Cost a Lot Builders, carry out any work. Indeed they have prepared an estimate for £95,000 (plus VAT) and can start work next Monday.

He states that nothing has been done to the contents and they are "getting mouldy." The relationships with their friends are strained so he explains that he will be moving the family to a country club that will charge only £ 450 per night for the three rooms they need, plus the cost of food and laundry. As the club is some miles away he expects Insurers to meet the cost of additional petrol and wear on his and his wife's cars at £ 0.40 per mile.

1. Outline how you would respond to the Insured and the various points Mr Gillani has raised, considering each of the Policy sections (Buildings, Contents and Alternative Accommodation). Explain the information you will require from the Insured and why it is required.

(15 marks)

2. Discuss how you would proceed following the visit, outlining what strategy you would adopt in respect of the appointed contractors and how you would advise Insurers of your actions in the Preliminary Report.

(10 marks)



3. Outline the basis of how you calculate the preliminary reserve under each Policy Section.

(5 marks)

4. Mr Gillani indicates that the contents loss exceeds the £50,000 sum insured, so he requests payment in that amount. Outline how you would consider this element of claim and what proof and evidence you would require.

(10 marks)

40 MARKS

QUESTION 5

In each of the following cases how would you calculate indemnity and what enquiries would you make to establish quantum and value?

- a) Replacement of three laptop computers and a two year old desktop computer, where the Insured cannot remember the date of purchase.
- b) Accidental loss of a necklace, the claim form merely states “Solid Gold Necklace”
- c) Fitted bathroom suite in a flood damaged household dwelling.
- d) Plant and machinery in a factory that is under the control of Liquidators
- e) Five year old camera
- f) Smoke damaged curtains
- g) Personal wine collection stored in the cellar of a private dwelling damaged by flood water
- h) Fire damage to a chapel building being converted into retirement flats. The policy only covers the existing building not the renovation works.

40 MARKS (divided equally)