



The Chartered Institute of Loss Adjusters

Associateship Examination 2010 (October)

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

Claims Condition 2 of the ABI Material Damage suggested wordings deals with Fraud.

Answer all the following questions, incorporating appropriate case law where applicable:

- a) Define fraud. Explain the implications of Condition 2 (Fraud) of the ABI Material Damage suggested wordings.
- b) What is the onus and standard of proof when there are allegations of fraud made by Insurers?
- c) List eight fraud indicators.
- d) Specify two fraud indicators and detail the nature and extent of factual evidence that you would seek to obtain if these indicators existed on a claim that has been presented.
- e) Explain the implications of the Police and Criminal Evidence Act 1984 in the investigation of insurance claims.

(8 marks for each)

40 MARKS

QUESTION 2

This question relates to Conditions of Average.

- a) Outline three variations of Average that can be found in commercial insurance policies and provide a worked example of each type in operation.
(20 marks)
- b) In the course of handling a claim being presented under the Reinstatement Memorandum you establish the following:



Sum Insured:	£ 600,000
Value at Risk at original inception:	£ 600,000
Value at Risk at time of loss	£ 700,000
Value at risk on completion of reinstatement:	£ 800,000
Agreed Loss:	£ 80,000

Calculate the amount payable, showing appropriate workings.

(10 marks)

- c) How would the calculation change if the provisions of the Reinstatement Memorandum were not met? Again show your workings.

(5 marks)

- d) What is First Loss Insurance and in what circumstances would it be usefully used? Describe how the settlement figure is calculated if the Declared Maximum Value at Risk at time of loss is less than the actual value at risk?

(5 marks)

40 MARKS

QUESTION 3

Following a fire at a semi-detached warehouse you are appointed by the Insurers of the tenants, ABC Ltd, to adjust their loss. The Insured are printers who occupy approximately half of the building. The building is a simple structure, constructed of profile sheeted side walls and roofing on metal supports. You establish that ABC Ltd has occupied the premises for the past 5 years and is the third tenant to have occupied the building which was erected in 1990. When the Insured moved to the premises the internal racking was already in place and the Insured has been using this racking for the storage of stock since occupation.

The landlord, a motor trader, occupies the other half of the building. Common parts of the building are shared.

Cover, under the printer's policy, is provided under a Standard 'All Risks' Commercial Policy with a Sum Insured for Tenants Improvements of £150,000, Stock (raw



materials, work in progress and finished stock) at £800,000 and Machinery, Plant and Equipment of £500,000. There is no Business Interruption insurance.

You discover that the fire spread from the adjacent motor trade area when welding works were being carried out, by an unsupervised apprentice, on the petrol tank of a car.

Following the loss the Landlord's insurers have approached the Insured to share in a number of costs that he states are tenant related.

- a) Give your reasoned advice to Insurers. You should consider policy liability as well as the advantages and disadvantages of contributing to each of the following:
- I. The roof of the building has been seriously damaged and surveyors propose to erect a temporary roof to protect the building and its contents.
 - II. Redecoration of common parts of the building.
 - III. Employment of security guards until the building has been repaired.
 - IV. The full cost of the internal storage racking.
 - V. Proposal to accelerate the works with premium and overtime payments being made to the Building Contractors.

(25 marks, 5 marks each)

- b) Prepare a Third Party Aspect section of a Preliminary Report providing your assessment of the possibility of a recovery and recommendations of further actions in this respect.

(15 marks)

40 MARKS



QUESTION 4

- a) Explain the insurance principle of Subrogation with the use of relevant leading legal case(s).
(10 marks)
- b) What is the position if, during the process to seek a recovery, the Third Party entity goes into liquidation? Specify the options that are open to the investigating adjuster? Detail the potential pitfalls.
(15 marks)
- c) What are the main provisions of the Third Parties (Rights against Insurers) Act 1930?
(5 marks)
- d) Following a successful recovery against Liability Insurers, explain to your Material Damage Principals and the Insured, using appropriate case law, the allocation of recovered funds between Insurers and Insured from the recovered amount:

Agreed Loss:	£ 400,000
Amount recovered	£ 300,000
Net Policy Payment	£ 220,000
Excess	£ 40,000
Other Uninsured Losses	£ 140,000

(10 marks)

40 MARKS

QUESTION 5

- a) Detail the procedures of a Stock Reconciliation employed to establish the value of a stock loss. Provide a critical assessment of the strengths and weaknesses of the use of a Stock Reconciliation to agree the extent of the loss.
(20 marks)



- b) When dealing with a loss of an antique item specify the nature of the information that you should obtain to assist in the validation of quantum.

(5 Marks)

- c) Following a serious fire at a house the Policyholder asks your advice on the nature of evidence that she is required to supply. She has been on several web sites where she has understood that Insurers will not make payments unless she can provide evidence of the loss.

Further she has read that if there is an absence of documentation the claim is likely to be treated as fraudulent and that special investigators will be engaged by the Insurer.

Prepare a letter to the Policyholder (DO NOT PUT YOUR NAME IN THE LETTER) to explain the practical steps you expect her to take to prove the loss.

(15 marks)

40 MARKS