



The Chartered Institute of Loss Adjusters

Associateship Examination 2013 (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.**



ANSWER ALL QUESTIONS

QUESTION 1

You are appointed by Insurers who provide a Standard Fire and Special Perils Policy (Material Damage) in respect of the occupier of a pawnbrokers shop in North London that has suffered extensive loss and damage during and after a riot.

The circumstances are that the Insured locked his shop at the close of business on a Saturday and later that evening the Police called him to advise that rioters had broken into his shop and caused considerable damage. He attended urgently and found that the shutters had been pulled away and the entrance door forced open, counters had been broken and most of the stock of jewellery and watches was missing.

The Insured arranged for the shop frontage to be boarded up that evening and returned on the following Monday to find that the building had been set on fire and council workers are demolishing the remains.

He has appointed a loss assessor to present a claim for the losses suffered as follows:

1. Fire damage to the building including the shopfront and interior fittings: £150,000
2. Loss of stock: £550,000
3. Contents: £ 2,000

You are advised that the Policy cover includes the following:

Tenant's fixtures and fittings:	Sum insured	£ 20,000
Machinery, plant and all other contents:	Sum insured	£ 20,000
Stock:	Sum insured:	£150,000

- i) Outline, in note form, the general investigations you would undertake during the initial visit. Based upon the brief information presented above, what aspects would require particular attention?
- ii) Do you consider it likely that there may be recourse to seek a recovery? If so, on what basis and against whom? What are the limitations you are likely to come across?
- iii) How would you seek to quantify the various elements of the claim? What considerations would be given to the pledged stock?
- iv) Discuss the underinsurance issues and policy response.

(10 marks for each)
40 MARKS



QUESTION 2

You are instructed to investigate a fire at a small industrial unit in the West Midlands on behalf of the occupant's Insurer. You are advised that there is in force a Standard Fire Policy, with the following sums insured:

Machinery, plant and all other contents	: £ 15,000
Stock	: £150,000

The description of the business is "Retailer of plaster products used in the building trade".

Upon arrival, you find a typical small industrial unit of standard construction with approximately 50% of the roof destroyed by the fire. You note that stacks of plasterboard and bags of plaster are stored on the floor in the lesser damaged section, and racking holds lengths of pre-planed timber. The fire appears to have started in a combined planing and thickening machine used to manufacture laths.

The Insured, a sole trader, explains that he started trading on the site five years before the fire. Approximately 18 months ago, he purchased the planing and thickening machine for £57,000. He also mentions that the stockholding probably totalled around £350,000. The Insured advises that he has no intention of continuing trading and would like consideration of a cash settlement of his claim.

During the course of your investigation, you establish that the Insured had recently taken out two high interest short-term loans to pay creditors.

- i) Outline the concerns you would need to address based upon the limited information available and how you would undertake your investigation into cause and quantum.
- ii) Despite concerns you have, it is apparent that a sizable proportion of the stock could be saleable. Discuss what actions you would take in this respect, bearing in mind the Insured's apparent refusal to consider continuation of trading.
- iii) When reporting to Insurers, what recommendations would you make to protect their position? What are the implications of such? In addition to issuing your report, what other documentation would require completion?
- iv) You identify that the invoice for the planing machine used to secure a loan from a local bank was false and a number of invoices supporting the claim are also found to be false. What implications would these facts have upon the Policy and the claim (quoting recent case law and relevant Policy Conditions)?

(10 marks for each)

40 MARKS



QUESTION 3

You are appointed by Insurers to investigate and adjust a fire claim at a High Street Amusement Arcade, forming part of a terrace of retail units, where the Insured is a Tenant (ground floor area only). The entire terrace of buildings, including the Insured's unit, is owned by a Pension Fund which you understand holds material damage insurance on the Buildings and Landlord's Fixtures and Fittings.

The Insured's material damage policy covers the following, on an indemnity basis:

Tenant's Improvements	£ 5,000
Equipment and all other contents	£200,000
Cash	£ 20,000

On the first visit, it is evident that a serious fire has occurred with considerable internal damage and there has been damage to most of the slot machines within the occupied area. Cash on hand has been destroyed by fire.

- i) Your initial investigations conclude that the sums insured appear to be adequate. What considerations have to be taken into account for you to reach this conclusion?
(10 marks)
- ii) What do you understand by the term "Tenant's Improvements" and when would these fall to be dealt with under the landlord's buildings policy? How would you distinguish between a "fixture" and an "improvement"?
(10 marks)
- iii) The claim is submitted in the total sum of £143,266, as follows:

<u>Buildings</u>	£
Shopfront glass	800
Entrance door and boarding up	1,500
Shopfront graphics	500
ABC Alarms - attendance	60
CCTV - repair	1,295
<u>Cash</u>	
Cash loss	12,000
<u>Slot Machines</u>	
Replacement machines as new 12 @ £10,000	120,000
Repair works to machines	7,111
Total	£143,266

Detail how each item claimed should be dealt with, whether any adjustments are required and provide your rationale.

(20 marks)

40 MARKS



QUESTION 4

In each of the following cases, how should the **reinstatement value** be calculated following damage and what enquiries should you make to establish quantum and value?

- a) Replacement of three laptop computers, where the Insured cannot remember the supplier and date of purchase
- b) The claim form merely states “Solid Gold Necklace”
- c) Fitted bathroom suite in a flood-damaged household dwelling
- d) Entire stock of wedding dresses stored in a ladies boutique
- e) Plant and machinery in a factory that is under the control of liquidators.

(8 marks for each)

40 MARKS

QUESTION 5

Answer the following, incorporating case law or statute where applicable:

- i) **Public Authorities Clause.** What type of costs can be validly claimed under this clause and what costs are normally excluded?
- ii) **Escape of Water.** What practical steps should be taken to minimise the damage resulting from a burst pipe throughout the ground floor of a domestic property?
- iii) **Reinstatement Condition.** How does this condition alter the underlying principle of indemnity in material damage insurance policies?
- iv) **Storm.** What would the Insured have to demonstrate in order to make a valid claim for storm under a standard fire policy?
- v) **Valued Policy.** What is a valued policy? What type of property is often subject to such a measure of settlement?

(8 marks each)

40 MARKS