



The Chartered Institute of Loss Adjusters

Associateship Examination 2013 (October)

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

The risk address is a modest 4 bedroom detached house in the South of England that suffered extensive damage following a fire that appears to have originated in the flue from the boiler located in the utility room. It is occupied by a retired Solicitor and his wife, who are the Policyholders.

You are appointed on behalf of Insurers who provide a combined Buildings and Contents Policy (including alternative accommodation cover). The Building's sum insured is £1,000,000; the Contents insured is £100,000.

Your Principals do not have panel contractors or damage control providers and have asked you to deal with these aspects. Initially you contact a damage control company and ask them to make the building safe, also to protect and remove the contents to prevent further damage.

After a week, the Policyholders advise that, as well as the repairs to the fire damage, they wish to have alterations carried out to the house as part of the repair. They say that the work is fairly modest and consists of structural alterations to the roof to incorporate two dormer bedrooms and to extend the rear of the building to enlarge the kitchen.

1. The Chartered Institute of Loss Adjusters Charter defines the role of a loss adjuster and sets out six types of duty to be performed. Explain what these are and briefly outline how they would be applied to this loss.
(20 marks)
2. Detail the potential pitfalls with regard to the appointment of the damage control firm. What actions would you take to avoid potential problems developing?
(10 marks)
3. Discuss the request made by the Insured with regard to the building reinstatement and how the work impacts upon the insurance claim. What would be your advices and recommendations to both the Insured and the Insurer?
(10 marks)

40 MARKS



QUESTION 2

You are instructed to investigate a fire that occurred in the early hours at a two-storey restaurant situated on the outskirts of a major town within the Greater London area. The fire is believed to have started in the kitchen area on the ground floor. You are advised that there is in force a Standard All Risks Policy with the following Sums Insured:

ITEM	£
Buildings	: 2,000,000
Machinery, Plant and All Other Contents	: 800,000
Stock of foodstuffs	: 10,000
Business Interruption	: 720,000

The Description of the Business is “Restaurant with Rooms” and it is established that the Insured has an 80-seat restaurant on the ground floor with six large en-suite bedrooms available to paying guests on the first floor of the commercial property. The rooms are well appointed with cable televisions, mini bars, in-room safes, coffee machines and trouser presses.

At the initial meeting with the Insured, you are advised that the building was originally a coach house which was subsequently converted to a public house. When the Insured first occupied the property in the early 1990s, he initially continued running it as a public house before a change of use in 2001 to a restaurant. In the last five years, the Insured first converted the first floor into bed and breakfast usage and you are told that, due to the isolated location of the business, restaurant patrons often stayed overnight and this aspect of the business was increasing the overall business revenue.

On the night of the incident, two of the guest rooms were occupied by restaurant guests, who had to leave their rooms urgently on the sounding of the fire alarm. The guests have subsequently claimed for fire damage to luggage, clothing and a laptop and theft of jewellery, a digital camera and a mobile phone.

- i) Outline in **note form** the initial investigations you would undertake and the general information you would seek.

(10 marks)
- ii) In relation to the claims made by the guests, what specific investigations should be undertaken by the adjuster in order to establish whether the claims should be considered, taking into account policy cover, common law principles and any statutory considerations. Based upon the information received, what would be your advices to the Insured and your recommendations to the Insurers?



(20 marks)

- iii) Following your investigations and reporting to Insurers, you are instructed to consider the claims submitted by the Insured's guests. Outline how you should handle the individual fire and theft losses. What specific considerations are required for each peril? Outline the basis of potential settlement, if any.

(10 marks)

40 MARKS

QUESTION 3

You are appointed on 11 September 2013 to investigate a water damage claim at a discount clothing store in a town centre.

Upon arrival you meet the owner who advises that water has recently flooded the basement area where he says there is some £120,000 of mixed clothing stock. You see that there is standing water in the basement to a depth of approximately 0.6 metres, but a water line is evident on the wall to a height of approximately 1.5 metres. Cardboard boxes are stacked on the floor to ceiling height; some are wrapped in plastic whilst others are open and partially empty.

You have received the copy Policy Schedule (but not the full Policy wording) which indicates that there is the following cover:

ITEM	£
Machinery, Plant and All Other Contents	: 50,000
Stock	: 100,000

The Policy Period is shown as 03 September 2013 to 03 September 2014 inclusive.

Based upon the limited information presented:

- (1) Provide brief notes outlining the lines of enquiry that should be made, setting out clearly what information you require and the reasoning behind such.

(10 marks)



- (2) Outline to Insurers the areas of concern that arise and what further investigations should be carried out. Detail any recommendations to make at this early stage and any actions that should be taken by Insurers.

(15 marks)

- (3) Discuss what potential avenues of recovery may exist.

(5 marks)

- (4) Bearing in mind the above points, draft an initial letter to the Insured setting out the current position of the claim, what information is required and how the claim will be progressed. **Do not put your name on the letter.**

(10 marks)

40 MARKS

QUESTION 4

For each of the following items, how should you calculate indemnity value following damage and what enquiries would you make to establish quantum and value?

- a) Replacement of seriously damaged double glazed uPVC windows
- b) A four-year-old 42" colour television
- c) Two large trunks of children's clothing contained in the loft of a private dwelling. A claim has been received in the sum of £500 for this clothing.
- d) Five bicycles contained in the Insured's detached garage
- e) An internal wrought iron staircase serving dormer bedrooms

(8 marks for each)

40 MARKS

QUESTION 5

Answer the following, relating to additional clauses:

- i) **Stock Declaration Insurance.** In what type of businesses is this form of stock insurance often found? How does it operate? In what ways does this type of insurance assist the adjuster in the handling of stock losses?



- ii) **Blanket Insurance.** Detail what this type of insurance is and what type of businesses it is most useful for. What particular problems face the adjuster when dealing with a loss under this insurance?
- iii) **First Loss Policy.** Explain how a first loss policy operates and why. In the event of a loss, how is the effect of any underinsurance dealt with?
- iv) **Excess and Franchise.** Explain how these terms differ in operation. Please provide loss examples of each.
- v) **Arbitration.** Explain the Arbitration Clause in the standard fire policy. How does this affect the normal handling of a fire insurance claim?

(8 marks each)

40 MARKS