



# **The Chartered Institute of Loss Adjusters**

## **Associateship Examination 2014 (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 have been instructed by WebInsureU Insurance company to deal with a theft.

The risk property is a ground floor one bedroom flat in the suburbs of a large town close to an international airport. The policyholder, Emma Bunnington, is an air hostess employed at the nearby airport. She lives alone but, when you visit a, gentleman, Mike Upton, is also present.

Having checked the Policy schedule, you find that the following cover is available:

Buildings £100,000

Contents £55,000

There is a single article limit of £3,500 for "Valuables". Buildings is on a reinstatement basis and Contents is on a new for old basis of settlement. The Policy is in Emma's name only, but there is limited cover for items belonging to guests. The guest cover is limited to £2,000 and is on an indemnity basis.

The claim is for the following:

- Flat screen plasma TV
- A single stone diamond ring on a gold band
- A gold locket
- An electronic game console
- A canteen of silver-plated cutlery
- Golf putter
- Small suitcase
- Damage to upvc double glazed casement window
- Damage to a solid wood front door and locks.

It becomes apparent that the game console and golf putter belong to Mike.



Whilst visiting, you notice a burglar alarm and you ask for details. Emma explains that it was installed just two days before the theft. In fact the alarm failed to operate and the alarm installers have admitted verbally that the installation was not carried out properly and that the installing engineer was not qualified and they had revisited four other installations and found them to be faulty. Emma sadly joked that the alarm company had a slogan "Our alarms - Alarmingly reassuring" and this sounded somewhat lame now.

Having delegated authority, you proceed to settle the claim. You establish Mike has no other cover and as a guest will benefit from the cover for guests' property.

1) Explain what is meant by reinstatement and new for old cover. (10 marks)

2) Explain, with statute and case law, what is meant by indemnity and detail how settlement of Mike's items are to be calculated correctly. (10 marks)

3) Explain the principle of insurance that may give rise to a claim against the alarm installing company. Detail the practical steps that should be taken to best secure a recovery from the alarm company. (10 marks)

4) Emma does not understand indemnity. Draft a paragraph of a letter to Emma which explains the principle of indemnity to her. (You are NOT required to prepare a letter in full and you must NOT put your name on the letter.) (10 marks)

**40 MARKS**



## QUESTION 2

1. Detail the circumstances that need to exist for contribution to arise.  
*(3 marks)*
  
2. Explain the policy restrictions and limitations on double insurance in terms of:
  - i) a deterrent to unscrupulous policyholders deliberately taking out more than one policy with the hope of recovering from more than one insurer, and
  - ii) correcting the possible inequalities to insurers that result from the policyholder's right to choose which insurer to claim against.

Your answer should include discussion concerning relevant case law and the common methods by which insurers modify the doctrine of double insurance.

*(10 marks)*

3. Distinguish in note format the difference between Contribution and Subrogation.  
*(2 marks)*
  
4. Calculate, using the **Independent Liability** method, the amount payable for each Insurer in the following Buildings loss:

|                                      |          |
|--------------------------------------|----------|
| <b>Agreed flood loss</b>             | £200,000 |
| <b>Agreed Building Value at Risk</b> | £500,000 |

The cover is concurrent and average applies to all policies. There is no dispute concerning quantum or the value at risk.

|                                     |            |
|-------------------------------------|------------|
| <b>Buckingham Insurance Company</b> |            |
| Buildings Sum Insured               | £1,000,000 |
| Excess                              | £25,000    |



**BL Insurance Company**

|                       |          |
|-----------------------|----------|
| Buildings Sum Insured | £500,000 |
| Excess                | £50,000  |

**Windsor Insurance Company**

|                       |          |
|-----------------------|----------|
| Buildings Sum Insured | £250,000 |
| Excess                | £10,000  |

*(15 marks)*

5. Mrs Kenton has a claim that is covered by two policies. She had taken out a buildings policy with Archer Insurance Brokers and has now found that her Building Society also provided a buildings policy. She is delighted and explains her good fortune to you that she can now “double her money”. An Adjuster tells her that is not the case and she has written to you to say that she feels that she may have inadvertently committed a crime. She seeks comfort and advice from you. Write a letter to her explaining the true position regarding the legality or otherwise of taking out more than one policy. Secondly explain to her how this domestic claim is likely to be settled in view of the double insurance. (You need not concern yourself with either extent of cover or policy liability.) **DO NOT PUT YOUR NAME ON THE LETTER.**

*(10 marks)*

**40 MARKS**

**QUESTION 3**

You are called by insurers at the opening of business hours asking you to attend at a serious fire that has occurred at one of their Insured’s Distribution Centres in the early hours of that morning. The Centre is the main local hub for the handling and distribution of food; refrigerated, chilled and general foodstuffs. The Centre is used not only for own foodstuffs but also for stock of other smaller suppliers.

You are told that the Policy has recently been renewed and your Principal’s Claims Department cannot supply you with clear details of the new limits and/or sums insured. However, they advise you that:



- i. Immediate attendance is required as extinguishment operations have been concluded.
  - ii. The fire damage is considered substantial with damage to Buildings, Stock, Plant & Machinery and All Other Contents. It is likely that business operations will be interrupted.
  - iii. The policy cover provided is under a Standard Fire and Special Perils Policy in respect of Property Damage and Business Interruption (Gross Profit basis per location).
  - iv. The Reinstatement Memorandum applies to Buildings and Plant & Machinery only.
  - v. The policy covers all Buildings, Stock (including Stock under the custody and control of the Insured), Plant & Machinery and All Other Contents.
  - vi. In relation to Business Interruption, they confirmed that the Maximum Indemnity Period is in excess of 12 months but are not sure whether it is 24 months or 36 months.
  - vii. The Claims Department require from you a detailed breakdown of potential Reserve by the end of the business day so that they can transmit this to their Head Office in the United States.
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1. As you are fully aware that the claim is likely to be very large, outline in detail, in **note form**, the steps that should be undertaken following this telephone call in relation to the management of the claims handling process. What resources are you likely to need in order to manage the adjustment of the loss, both immediate and as the claim progresses?

*(5 marks)*
  2. On arrival at the Distribution Centre, you note that the Buildings comprise a large complex of mixed construction, heights and ages. The fire damage is confined to large communicating storage warehouses incorporating open storage areas, commercial refrigerators and freezers, and loading bays. Outline how you would calculate an initial Reserve for this aspect of claim.

*(5 marks)*
  3. You establish that, as well as Stock in freezers within the warehouses, there are large quantities of general foodstuffs stored in the open warehouse areas and more importantly stock in refrigerated vehicles at the loading bays. Outline how you would calculate an initial reserve for the Stock and what information you would require to reach your recommended figure.

*(10 marks)*



4. The Machinery & Plant and All Other Contents within the warehouses have been destroyed or seriously damaged in the fire. Describe the information that you would need to obtain in order to provide the Insurers with a realistic Reserve for this property.

*(10 marks)*

5. In relation to the Business Interruption, the Centre Manager advises that he can only provide you immediately with the Centre management accounts that are submitted to Head Office on a daily basis and their own daily movement records. Outline how you would initially quantify the potential Business Interruption Reserve for your Principals, including the relevant constituent elements of the loss exposure.

*(10 marks)*

**40 MARKS**

#### **QUESTION 4**

You are appointed to investigate a loss that occurred on 26 February 2014 when the Insured's warehouse in Somerset flooded to a depth of 75 centimetres.

The Insurers had issued a Standard Fire and Special Perils Policy in respect of Property Damage and Business Interruption. The inception date was 01 January 2014.

The site is located on a flood plain and comprises a single purpose-built industrial unit. The Insured manufacture office products at a nearby factory and use the risk address as their distribution hub. You are advised that water entered the warehouse overnight following a period of very heavy rainfall causing a rapid rise in the water table. Much of the warehouse remained flooded although the water level was gradually receding.

During the initial discussion with the warehouse manager, you are advised that they had suffered flooding on two previous occasions in three years due to overtopping of the nearby river. When inspecting the warehouse, you find the stock is packed in cardboard boxes stacked in rows upon the concrete floor.

1. In view of the recent Policy inception and admission of the previous flooding incident, Insurers may consider it prudent to issue a Reservation of Rights.
  - i) Define a Reservation of Rights.
  - ii) Outline a number of reasons why insurers may wish to adopt this approach.



iii) What is the duration of a Reservation of Rights?

(10 marks)

2. Considering the cause of the damage:

- i) Discuss the proximate cause in relation to defined perils and exclusions.
- ii) Discuss the flood definition arising from the case of **Young v Sun Alliance and London Insurance (1976)**.
- iii) Discuss the case of **Rohan Investments Ltd v Phillip Cunningham and Others (1998)**. How did this modify the decision of the Young case?

(15 marks)

3. With regard to the stock loss:

- i) Discuss which Warranty you would expect to be applicable. How would this apply in the case given?
- ii) Outline the five principles appertaining to Stock Insurances on a Declaration Basis.
- iii) Discuss the position regarding mitigation of the stock loss, bearing in mind salvaging and substantiation of the nature and extent of loss.

(15 marks)

**40 MARKS**

## QUESTION 5

You are instructed by Insurers to deal with a claim involving a fire at a large detached private dwelling insured under a High Net Worth Household Buildings and Contents Insurance Policy. The sums insured are as follows:

|                            |   |             |
|----------------------------|---|-------------|
| Buildings                  | : | £ 4,500,000 |
| Contents                   | : | £ 350,000   |
| Paintings and Works of Art | : | £ 300,000   |
| Total                      | : | £ 5,150,000 |



Insurers are unable to provide you with a detailed schedule of the specified valuable items prior to your visit.

During the site visit, you establish that a small fire developed under the eaves of the roof to the rear of the building at third floor level. Contractors had been working there on scaffolding, removing paint.

The fire damage to the building is restricted to a small area of the roof, but smoke had entered the property.

At the time of your attendance, you are met by the Insured's Personal Assistant who informs you that she has only just taken up the position and that the Insured was overseas on business and is due to return the following week.

- i) What action should you take to determine the cause of the fire and what initial measures would you arrange to be undertaken?  
(5 marks)
- ii) The Personal Assistant has no knowledge of the nature and value of the household contents and informs you that the schedule of the works of art is held under lock and key at the Insured's office. What steps should you take to establish the exact nature and extent of the damage? How should you establish the Reserve for the Insurer's?  
(10 marks)
- iii) When the Insured returns, he advises that the works of art and internal finishings are more seriously affected than initially thought due to smoke permeating the paintings and the porous wall coverings. What action should you take to establish and evaluate the correct extent of the damage in order to satisfy the Policyholder and the Insurers?  
(10 marks)
- iv) It is now claimed that the smoke has seriously affected the fine art items. What should you do to verify this? If demonstrated, what action(s) should you take to estimate appropriate diminution in value?  
(5 marks)
- v) Draft a short letter to the contractors holding them liable and outlining the reasons for your arguments. DO NOT PUT YOUR NAME ON THE LETTER.  
(10 marks)

**40 MARKS**