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The Chartered Institute of Loss Adjusters

Associateship Examination 2014 (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**

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ANSWER ALL QUESTIONS

Question 1

You are instructed by Insurers to deal with a claim involving fire damage at a small retail ladies clothing outlet. The premises are accommodated in a converted two storey, terraced building and comprise a retail sales shop and stock storage facilities on the ground floor. The first floor is used for overflow storage. As the fire occurred in early January 2014, various surplus stock, specially acquired for the Christmas and New Year trading periods, was stored at first floor level.

The normal range of stock is typical for a ladies retail-clothing store but the outlet specialises in the teenage and youth market.

The fire originated in the vicinity of the electrical distribution board located within the stockroom at the ground floor rear of the building. All the stock in that area has been either completely destroyed or so severely damaged that it is fit only for disposal. The remainder of the premises has been affected mainly by smoke and heat.

The Insured occupy the building as tenants.

- i) What action should you take to determine the cause of the fire and what investigations should you arrange to be undertaken?
(5 Marks)
- ii) At the time of your visit, the Insured tells you that he has been approached by the Landlord to vacate the premises whilst the building repairs are undertaken. He does not want to vacate, as this will be costly, and asks you for your advice. Discuss the relevant positions of the Landlord and Tenant and the responsibility for the extra costs incurred.
(5 Marks)
- iii) What action should you take to establish and evaluate the extent of the stock loss? What documentation would you require? On what basis would the stock loss normally be calculated? How would this change if the stock records were destroyed in the fire? Would any special consideration apply to the stock that had been specifically acquired for the Christmas/New Year period but which is now surplus to the Insured's normal requirements?
(15 Marks)
- iv) Various items of Tenants Fixtures and Fittings and Contents have been damaged. There is a typical All Other Contents clause included in the insurance policy. The Insured advises that his pedal cycle has been destroyed as well as all his business books and his computer that was used



for all his business dealings. How should you deal with each of these items under the All Other Contents clause?

(10 Marks)

- v) Apart from the items that have either been destroyed or severely damaged, the remainder of the stock has only suffered superficial smoke damage. What steps should you take to deal with this aspect?

(5 Marks)

(40 MARKS)



Question 2

You are acting for Insurers under a Standard Fire Policy which provides cover for Machinery, Tenants Improvements and Stock. In note form, outline to your Principals their liability for the following:

- i. Stock belonging to one of the Insured's customers. There are no written contract terms between the parties. (8 Marks)
- ii. Manufactured goods awaiting delivery for which no payments have been received. (8 Marks)
- iii. Replacement of the shop front to a premises in a shopping mall following a major break in. Would your views be different if the premises were in a high street location and, if so, why? (8 Marks)
- iv. Replacement of a suspended ceiling following an escape of water, plus redecoration of the damaged rooms and electrical repairs. (8 Marks)
- v. Fire damage to the air conditioning system installed by the Landlord but extended and maintained by the tenant. (8 Marks)

(40 MARKS)

QUESTION 3

You are appointed by ABC Insurers to deal with a flood damage claim in Amchester following torrential rain storms during an 80 hour period which resulted in the River Am overtopping its banks and flooding the surrounding area.

A local factory complex, leased by Acme Computers under a fully repairing and insuring lease, is affected. The facility comprises:

- (i) A two storey, steel framed and brick clad office building located adjacent to the river
- (ii) A portal framed, corrugated sheet metal clad warehouse building which contains both finished goods for delivery and also components awaiting assembly
- (iii) A factory/assembly building of similar construction to the warehouse.

During the initial period of heavy rain, the offices are flooded to a depth of 1 metre but the other facilities are unaffected. As water levels rise, the level of water in the offices increases to 2 metres and, 75 hours after the flood started, following a further period of heavy rain, the warehouse is affected with water increasing up to a depth of 750 mm. The insured took steps to protect the factory/assembly building with temporary bunds and this proved effective.



At the time of the incident, the quantity of manufactured stock in the warehouse was at a higher level than normal due to a major order being completed. Stock was stored on both shelving and in packages on the floor.

The policy is written on a Typical All Risks basis, although due to a previous flood 5 years ago a stillage warranty applies.

- i) Describe, in note form, the steps you should take to establish the extent of damage in the office building to both building and its contents. What steps do you consider will be necessary to repair the property and restore the contents in order to bring it back into full operation? (You may make assumptions as to the method of construction but these must be explained in your answer.)

(10 Marks)

- ii) What policy conditions and/or warranties do you consider will apply to the claims for the offices and warehouse?

(5 Marks)

- iii) Assuming some of the finished goods are salvageable, what steps should you take to deal with these?

(5 Marks)

- iv) The claim presented for the office and warehouse includes:

- a. Replacement of a leased colour photocopier
- b. Redecoration of the whole stairwell and first floor corridor in the office building
- c. Replacement of the server at ground floor level and all connected data cabling throughout the building, as the manufacturers refuse to guarantee its continued uninterrupted operation
- d. Costs associated with protecting the factory building.

The policy is subject to an excess of £50,000 for flood damage. How many excesses apply and why?

Explain, in note form, how you should deal with each of these aspects.

(10 Marks)

- v) The buildings are separately specified in the policy with individual sums insured. The Sum Insured for the offices is £400,000 yet the Value at Risk is put at £550,000. How should you verify the sum insured and what effect would underinsurance have on the claim? Using your own figures, show how this would be calculated.

(10 Marks)

(40 MARKS)



QUESTION 4

In London a riot takes place in an inner city area leading to extensive material damage to houses and businesses.

You are appointed to deal with a claim for ABC Music Limited, a supplier and manufacturer of musical instruments. Their shop/workshop is ransacked, with the workshop situated at the rear of the premises being set on fire. The property is owned by the Insured and the first floor living accommodation is tenanted, being occupied by students.

The property is insured under a Standard Fire and Special Perils Policy and the Sums Insured are:

Building	£900,000
Stock	£400,000
Materials of Trade	£100,000
Business Interruption	£800,000
Loss of Rent	£ 20,000

A claim is submitted under all heads of the policy. Answer in note form the following:

- i) How should you assess the extent of damage/loss and calculate the Value at Risk for all heads of the claim?
(10 Marks)
 - ii)
 - a. What steps should you take to pursue recovery?
 - b. From whom should you seek recovery?
 - c. Outline the relevant provisions/requirements of any applicable legislation.
(10Marks)
 - ii) The building repairs are estimated at £250,000 and are based on a single “global estimate”. How should you check quantum and verify costs?
(10 Marks)
 - iii) A proposal is submitted to accelerate the works. Under what circumstances should you agree to this and how should you verify that it was a viable proposal?
(10 Marks)
- (40 MARKS)**



QUESTION 5

- a) Explain the insurance principle of Subrogation with the use of relevant leading case law.

(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:

Loss	£400,000
Recovery	£300,000
Net Policy Payment	£220,000
Excess	£ 40,000
Other Uninsured Losses	£140,000

(10 Marks)

(40 MARKS)