



STRICTLY PRIVATE & CONFIDENTIAL
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The Chartered Institute of Loss Adjusters

Associateship Examination 2015 (October)

Paper C3 - Property Domestic

3½ Hours

Maximum Marks 200

Answer ALL questions in Part 1 and 2 questions from Part 2

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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PART 1

ANSWER ALL QUESTIONS

QUESTION 1

- A. In a standard fire policy, Insurers seek to protect their right of recovery by means of the Subrogation Clause. Explain briefly the provisions of this Clause and whether it alters, in any way, the position applicable under Common Law.
(8 marks)
- B. Discuss, with reasoning and by reference to statute and case law as appropriate whether recovery may be available in the following circumstances. In each case, you represent the building insurers.
- i) A detached private dwelling insured by your Principals is severely damaged by fire. This originated in a timber outbuilding in the garden of the neighbouring house and spread to the boundary fence and then to the adjoining conservatory of the insured's property. The cause of the fire was not positively established but may have been due to an electrical defect, the outbuilding being connected to the mains supply.
(8 marks)
- ii) A building used for commercial purposes insured by your Principals and rented to a Tenant is damaged by an escape of water. Enquiries show that the cold water feed to a newly installed dishwasher in the staff kitchen failed due to being fitted incorrectly. The work was carried out personally by the Tenant who is not a qualified plumber.
(8 marks)
- iii) The position is the same as ii) above, but on this occasion the work had been carried by an independent plumbing contractor.
(8 marks)
- iv) The front boundary wall and part of the front elevation of the Insured's bungalow have been damaged following impact by a lorry. Enquiries show that the driver of the vehicle was forced to swerve to avoid a pedestrian who attempted to cross the road without checking that it was safe to do so. The pedestrian admits to being at fault but holds no insurance to cover any potential liability. The vehicle Insurers deny liability, but it was subsequently established that the driver was using a hand-held mobile phone at the time of the incident and was issued with a fixed penalty notice for this offence.
(8 marks)

40 MARKS



QUESTION 2

- A. You are instructed to deal with a claim under a domestic Policy for the theft of jewellery and personal effects following forced entry into the Insured's property. Cover had been arranged with your Principals in January 2015 and the theft occurred in June 2015. Continuous Cover had previously been arranged with other Insurers, the Policyholder explaining to you that he always "shopped around" at renewal to secure the best available premium.

Following investigation, you find that the claim is in order and that there is no evidence that the loss has been overstated or exaggerated. However, during your investigations, you find that the Insured was imprisoned for six months in 2012 for persistently flouting driving bans which had been imposed during the previous five years for various motoring offences, including dangerous driving and driving without insurance. This is not disputed by the Insured who explains that his behaviour at the time was due to "personal issues" and he has not reoffended in any way since his release from prison.

You include these details in your Report to your Principals who instruct that they wish to avoid the policy for what they term as "material non-disclosure" on the basis that the history of driving offences and, in particular, the prison sentence should have been declared on application for Cover. Before conveying this decision to the Insured, they ask for your views and further advice.

For this purpose, they supply you with a Statement of Fact compiled at the application stage which the Insured has agreed is accurate. On reviewing this documentation, you note that the only relevant question appears to be:

"Have you within the last five years been convicted of any criminal offences other than motoring?" The Insured has replied in the negative.

There is no question that seeks disclosure of any term of imprisonment.

The document also refers to any material facts that should be disclosed.

Report further to your Principals to advise them how they should proceed, including reference to any specific legislation and case law.

Would your advice be the same in dealing with a claim under a commercial policy where the Insured is a sole trader and has not disclosed the term of imprisonment?

(30 marks)

- B. You have been instructed by Insurers to deal with a claim for fire damage to household contents. The sum Insured against Contents is £25,000 but you calculate that this is not adequate and that the Value at Risk is £75,000. The claim is in order and is validated at £10,000. You report to Insurers to this effect and, at the same



time, seek their instructions regarding the underinsurance. The Policy stipulates that Insurers may either refuse to pay the claim or pay a proportion of it.

In view of the degree of underinsurance, Insurers decide to take the former option and refuse to pay the claim. They request you to notify the Insured to this effect.

Having done so, the Insured challenge the position and maintain that they were not warned on applying for cover of such drastic consequences. They point out that, during the application process, they were asked “what is the total value of the contents to be insured” and they gave the figure of £25,000. In noting this information, Insurers’ representative commented that this figure should be accurate and, if it was low, “they would not get the full value back” in the event of a claim. This is confirmed in the recording of the conversation

During your further enquiries, the Insured explain that they had understood the question to mean “what is the total value of the contents you want to be insured?”, whereas Insurers tell you that they intended the question to mean “what is the total value of all of the contents of the home you want us to insure?” From their interpretation of the question, the Insured consider that this has been accurately answered and that the full validated claim should be paid without penalty.

What advice would you provide to your Principals?

(10 marks)

40 MARKS

QUESTION 3

- A. You are instructed to deal with a claim for malicious damage to a fast food take away outlet. This occurred late at night and was caused by a number of inebriated youths who were refused service for being offensive to the Insured’s staff and other customers. The Police were called to the scene, but by that time the individuals responsible had disappeared and have not been traced. Your Principals provide cover for Trade Contents, Stock, Tenant’s Improvements and Business Interruption. The Buildings are covered under a separate Policy arranged by the Landlords through different Insurers. The Policy is subject to various warranties and, following your initial enquiries, you are able to confirm compliance, but with one exception. This relates to the cleaning of ducts from the frying range to prevent accumulation of fat deposits etc. The warranty requires cleaning at six monthly intervals and records maintained to this effect. However, you find that the last time they were cleaned was 12 months prior to the incident and the Insured attributes this to an administrative error on his part.

Significant damage has occurred to the frying range and other catering equipment. The Insured has been told by his suppliers that none of this equipment can be repaired and must be replaced. In the case of the frying range, a lead time of three months is specified.



The Insured is pressing for approval to replace the equipment and for an interim payment under the business interruption claim so that he can continue to pay his staff until the business reopens. This will be subject to satisfactory completion of the separate building repairs for which, at this stage, a three week period is estimated.

What initial advice would you give to both your Principals and the Insured?

(15 marks)

- B. Explain the term “Stock Reconciliation Basis” and discuss the circumstances in which it might be appropriate to quantify the loss on this basis, outlining any specific issues and procedures that might be applicable.

(10 marks)

- C. Vandals, hurling bricks, damage the shopfront window of a ladies clothing retailer specialising in high class fashion and designer labels. Some of the stock on display has clearly been damaged by impact by the bricks and glass fragments. Other stock on display, remote from the point of impact, appears to be unaffected. However, the Insured is emphatic that all the shopfront display stock should be dealt with as total losses since there is the risk that some glass fragments may be found in other items. This could have adverse consequences for the business if such stock was sold and then found to have been damaged in this way. How do you deal with this issue?

(10 marks)

- D. Calculate the amount payable by Insurers in the following circumstances. All workings must be shown.

Agreed Loss of Gross Profit	£25,000
Loss Assessor's Fee	£2,000
Accountant's Fee for certifying turnover	£350
Sum Insured	£100,000 (Declaration Basis)
Insurable Amount	£125,000

(5 marks)

40 MARKS



PART 2
ANSWER TWO QUESTIONS ONLY

QUESTION PD1

- A. You are dealing with a claim for accidental loss of a diamond ring, specifically insured under the All Risks section of a household policy with a Sum Insured of £7,000. Your investigations show that the claim is in order and Insurers confirm that Policy Liability is admitted.

The ring had been specially commissioned as an anniversary present for the Insured's wife about two years earlier and had been designed and made by a local jeweller. The same jeweller is able to make an identical replacement at a cost of £6,500, with a 7.5% discount for the benefit of Insurers if they agree, with the approval of the Insured, to pay him direct.

In the meantime, Insurers have obtained a further quotation from their preferred jewellers who state that, after allowing discount, they can produce a similar ring for £4,750. They instruct you to notify the Insured that they will either replace the diamond ring through their preferred supplier or pay a cash settlement of £4,750.

The Insured does not consider that either option is fair. He points out that, being a bespoke item, he does not believe that anyone other than the original jeweller can produce an acceptable replacement. He also considers that it is not reasonable to be offered a cash settlement of less than the amount that the original jeweller would charge for a replacement.

What advice would you provide to your Principals in an attempt to resolve the impasse that has now been reached?

(10 marks)

- B. You are dealing with a claim for fire damage to household contents for which Policy Liability is accepted. The insured is a keen collector of specialist magazines and this collection includes a complete set of the enthusiasts' monthly magazine, "Clockwork Train and Steam Bicycle Review". The Insured has purchased each monthly edition since the magazine was first published fifty years ago and the complete collection, totalling some six hundred items, was destroyed in the fire.

The Insured has obtained verbal advice which suggests that the value of the complete set, allowing for the fact that many of the earlier issues would be difficult, if not impossible, to source, should be in the order of at least £3,000. However, your Principals consider that the appropriate measure of indemnity would be to pay the current cover price, £1.50, multiplied by the number destroyed, six hundred, and thus conclude settlement at £900.00. This is flatly rejected by the Insured.

What advice do you now provide to your Principals, noting that Policy Cover is adequate and there are no Policy Limitations to consider?

(10 marks)



- C. You are instructed by your Principals to deal with a claim notified by their Insured for damage caused by escape of water. In the initial notification, the Insured reports that everything appeared to be in order when he and his wife left for work in the morning. On their return home in the early evening, they immediately discovered that the ground floor was waterlogged and water was pouring through the ceiling. Further investigation established that the cold tap to the sink in the first floor bathroom had been left on with the plug in the waste outlet. Water overflowed from the sink, gravitating into the ground floor accommodation. Damage is said to be extensive.

By way of explanation, your Insured states that he was the last person to use the washbasin and, as he was doing so, was distracted by his mobile phone ringing in the adjoining bedroom. The conversation with the caller only lasted for about one minute but the Insured and his wife were already late leaving for work and the Insured concedes that he must have forgotten to check that the tap had been turned off.

Your Principals' policy covers Buildings and Contents against the usual perils including accidental damage. The Policy was incepted three weeks prior to the incident, the Insured explaining that previous cover had inadvertently lapsed due to oversight on his part.

Shortly after receipt of your instructions, your Principals contact you again. They state that they have received an anonymous call which alleges that the incident was staged by the Insured with a view to obtaining monies from the claim to alleviate severe financial problems.

At your initial meeting with the Insured and his wife, they immediately ask you how long the claim will take to settle and they also insist upon immediate provision of suitable alternative accommodation.

What action shall you take generally at the time of and following your initial meeting, how do you respond to the specific issues that the Insured has raised, and what preliminary advice do you provide to your Principals?

(20 marks)

40 MARKS



QUESTION PD2

You are instructed to deal with a claim submitted for damage that has occurred to a detached bungalow of standard construction which is used for normal residential purposes. Investigations have established that the damage has been caused by gradual leakage from defective underground drains which has affected the whole substrate of the building. In consequence, all of the flooring together with fitted furniture such as bedroom units and other joinery items will need to be stripped out and renewed. In addition, appropriate remedial works will be required to areas of plasterwork and wall coverings. Your investigations have established the following facts and potential issues:

1. The potential problem first manifested itself approximately two years earlier when the Insured and his family became aware of unpleasant smells which would occur within the property from time to time. The Insured engaged a contractor to investigate, but the investigations carried out at that stage were inconclusive and possibly inadequate, the contractor informing the Insured that “there was no significant problem and no evidence of burst pipes or defective drainage”.
2. The Insured remained uneasy but, in view of the advice he had received, did not suspect that there was anything seriously amiss and, although unpleasant smells continued to occur occasionally, the Insured dismissed these as possibly due to lack of adequate ventilation when the windows were closed. However, more recently, the problem seemed to become worse and, eventually, more detailed investigations were put in hand. These then revealed the full extent of the problem as specified above.
3. Your Principals’ Policy covering the building against the usual range of perils, including Accidental Damage, was inceptioned six months ago, the Insured’s Brokers having obtained more competitive terms at renewal. The claim is initially submitted to your Principals since the damage, following investigation as detailed above, was discovered during the currency of their Policy. Following receipt of your factual report, your Principals instruct you to inform the Insured that the claim must be redirected to his previous Insurers since the damage originated prior to the inception of their Policy. They also tell you that, when applying for cover, the Insured confirmed that the property was in a good state of repair.

In accordance with the instruction you have received, you notify the Insured that the claim should be submitted to his previous Insurers. You are subsequently contacted by the Adjusters representing those Insurers who tell you that their Principals are not prepared to deal with the claim. They go on to say that your Principals are responsible for dealing with the claim since the damage was discovered during the currency of their policy. They have notified the Insured that he should again present the claim to your Principals and are now closing their file.

A short time later, you are contacted by the Insured who is very upset. He points out that the insurance has been in place since the problem was first suspected and when the damage was discovered and the appropriate premiums have always been paid. He cannot, therefore, understand why neither Insurer is prepared to assist him.



Discuss in detail the various issues that arise here and explain what further recommendations you would make to your Principals.

40 MARKS

QUESTION PD3

- A. You are instructed to deal with a claim that involves storm damage to the brick chimney stack of the Insured's two storey semi-detached house and which is shared with the adjoining property. Following your inspection and further enquiries, you confirm to your Principals that storm damage has occurred and they are prepared to accept Policy Liability. The whole of the chimney stack will need to be rebuilt including the neighbours' side. You contact the neighbours to notify them to this effect and explain that, since the chimney stack is in joint ownership, the cost of reinstatement is shared equally between each householder. You suggest to the neighbours that they submit a claim to their own Insurers.

The neighbours' Insurers arrange for one of their Network Building Contractors to carry out an inspection. They report back to them that the brickwork to the chimney stack on the neighbours' side has deteriorated due to normal wear and tear and weathering and that there is no evidence of storm damage. The neighbours' Insurers therefore refuse to offer any contribution towards the costs to be incurred. The neighbours, whilst agreeing that they may be liable for an equal share of the costs, intimate that they do not have the financial means to do so in the absence of any assistance from their own Insurers.

The Insured is now pressing for works to be put in hand. What action should you take and what recommendations would you present to your Principals with a view to resolving the position?

(22 marks)

- B. Explain how you should deal with the following issues and what advice you would provide to your Principals and their Insured:
- i) You are dealing with a claim for buildings damage and your Principals require the repairs to be carried out by their Network Building Contractors. They provide a costed repair schedule, which you approve, and you authorise them to proceed. On completion, the Insured complains that various of the works are substandard. The Contractors do not agree and consider that all the work has been properly and adequately completed.
 - ii) The Insured presents you with a quotation from his own preferred contractor. Following review, you confirm to the Insured that he may instruct this contractor to carry out the work and to provide you with an invoice on completion. Unfortunately, after the work has been completed, the Insured identifies severe deficiencies. He asks that Insurers now finance rectification works using their Network Contractors for this purpose.



- iii) As ii) above, the Insured presents a quotation from his own preferred contractor. On this occasion, you speak to the contractor and agree certain reductions to the scope of work and costings which appear overstated. The contractor then provides a further lower quotation which you confirm to the Insured is in order and that he may instruct the contractor to proceed. As above, the work is not satisfactory and the Insured requests rectification by Insurers.

(18 marks)

40 MARKS