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The Chartered Institute of Loss Adjusters

Associateship Examination 2015 (April)

Paper C2

Application of the Principles of Insurance

ANSWER 5 out of 6 Questions

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 FIVE out of SIX QUESTIONS

QUESTION 1

Following severe flooding, you are appointed by typical Insurers to deal with a loss from a factory producing food products. The property is insured under a typical All Risks Policy with the cover extended to include the Reinstatement Memorandum and Public Authority Clause.

The Sums Insured are:

Buildings	£800,000
Plant, Machinery and AOC	£500,000
Stock	£200,000

Business Interruption is insured elsewhere.

The premises were flooded to a depth varying between 100 and 200 mm. What enquiries should you make and what advice should you give Insurers on the following:

- a) There is a warranty requirement that stock will be stored at a minimum of 100 mm off the floor. You establish that it is stored on pallets 100 mm off the floor but water in the stockroom varied in depth from 100 mm to 150 mm.
- b) Since the factory came into operation, various changes have taken place regarding food hygiene. The local authority requires these rules to be implemented when reinstatement takes place, which will increase the cost of works in the damaged and undamaged areas by £80,000
- c) A food processing machine that is critical to the continued success of the business is irreparably damaged and a replacement can be obtained from Japan on six month delivery. For a premium payment, delivery of a similar but higher specification machine can be achieved in three months.
- d) Some of the stock is tinned food and appears to be unaffected by the flood water. Insurers wish you to dispose of the salvage. Advise Insurers on what actions should be taken and potential difficulties that might arise.

(10 Marks each)

(40 MARKS)

QUESTION 2

- a) Outline in note form the provisions of a typical Subrogation condition. (5 Marks)

- b) You are appointed by ABC Insurers to deal with a claim under a domestic policy, submitted by their Insured, Mr and Mrs Jones, for fire damage at their terraced cottage.

The cottage dates from the 16th Century. Its structure consists of a timber framework with the external framework being in-filled with brick. The building has a pitched tiled roof. It is a Grade II listed building. The building is the centre cottage of a terrace of five similar properties.

The fire occurred in the roof whilst redecoration work was being carried out by XYZ Decorators who had used a blow torch to burn off paintwork on timberwork adjoining the gutters.

- i) Outline in note form the investigations you would make into the cause and the recommendations you would make to your Principals regarding policy liability/recovery. (10 Marks)

- ii) How should you assess quantum and what difficulties would you anticipate with reinstatement? (10 Marks)

- iii) Claims are submitted against your Principals' Insured by the owners of the two adjacent cottages for fire and smoke damage. One owner is insured and the other is uninsured. What advice would you give your Principals regarding these claims? (5 Marks)

- iv) Draft a formal letter to XYZ Decorators holding them liable and outlining the reasons for your arguments. (10 Marks)
(40 MARKS)

NOTE FOR NON-UK CANDIDATES

A listed building is a building of historic importance that is protected by law. The level of its importance is governed by the grading, with Grade I being the highest.

Restrictions are placed on works that can be carried out to such buildings and, in the event of damage, the property has to be reinstated to its original style using comparable materials. Reinstatement therefore tends to be more expensive and can take longer.

QUESTION 3

a) Explain the difference in the indemnity provided under a typical household building policy where:

- i) The policyholder elects to reinstate
- ii) The insurers elect to reinstate.

(10 Marks each)

b) List the general enquiries you would make when dealing with a commercial storm claim damage to:

- Flat felt roof
- Broken render finish on an external wall
- Collapsed chimney
- Slates slipped on a slate roof.

(20 Marks)

(40 MARKS)

QUESTION 4

Answer all the following questions, incorporating appropriate case law where applicable:

- a) Explain the definition of fraud under UK statute law, specifying the appropriate Act.
- b) Outline five indicators that could alert you to potential fraud when dealing with an insurance claim, explaining why each is an indicator of potential fraud. For each indicator, describe what enquiries should be made.
- c) Explain the potential legal pitfalls of failing to carry out enquiries in the correct manner when investigating a potentially fraudulent claim.
- d) How does a commercial policy generally deal with the effect of fraud and what is the position with a claim where fraud is demonstrated and proved? Where does the onus of proof lie to establish fraud?

(10 Marks each)

(40 MARKS)

QUESTION 5

a) Explain how you should validate the adequacy of the sum insured for the following items:

- Buildings
- Contents
- High Value items

- Machinery and Equipment
- Stock and Materials in Trade.

(20 Marks)

b) What is the right of Contribution and what conditions must be in place for it to arise. Provide two methods used to calculate the liabilities of the Insurers.

(10 Marks)

c) Calculate the liabilities of each Insurer for fire damage for the following commercial building loss, showing all workings, using one of the methods detailed in your answer to Part b).

Policy A: Insured is the Tenant

Sum Insured: £100,000, subject to Average. Excess: £500

Policy B: Insured is the Landlord

Sum Insured: £150,000, subject to Average. Excess: Nil

Value at Risk £200,000

Adjusted Loss: £50,000

(10 Marks)

(40 MARKS)

QUESTION 6

You are handling a claim where the Policyholder would be deemed to be a Consumer under the Financial Conduct Authority regulations. The claim is for an escape of water and Policy liability is not disputed.

You visited the premises and identified that, as a result of the ceiling collapsing in the bathroom the enamel bath has been chipped and the damage is so severe that the bath will need replacing. This again is not disputed.

You have instructions from the Insurer stating that you may pay for the bath and up to 50% of the cost of the replacement toilet, wash basin and bidet.

Before you explain this to the Policyholder, she advises you that she understood that no payment would be made except for the replacement bath as the other items are not damaged.

a) Explain what settlement you should propose and include your rationale for the decision.

(10 Marks)

b) Whilst dealing with the same claim, you are advised that there is a Franchise under the Alternative Accommodation section of £1,000 whilst under the Building Section there is an Excess of £150. You consider a franchise to be unusual and decide to verify the facts with the Insurer. Explain the difference between a franchise and an excess and, using figures made up by you, give example calculations of the application of an excess and a franchise.

(10 Marks)

- c) You are handling a small commercial claim. The Policyholder is Ambridge Organics Ltd. A Director of the company, Burt Fry, states that, as part of the loss, his tablet computer was damaged. You ask for the purchase invoice and when you receive this it is clear that it was bought by Burt Fry not Ambridge Organics Ltd.

Burt explains that it was a Christmas present to his wife Edna, but Edna did not like using it. He had therefore decided to use it for work.

Explain how you should determine whether there is an insurable interest, detailing what factors you would take into account. In addition, provide an explanation of the enquiries you should make to establish whether the Policy covered the item.

(10 Marks)

- d) You are handling a claim where Alternative Accommodation is required. You agree £1,000.00 per month for the rental of a property under the Buildings Policy. You seek contribution from the Contents Insurer, who resists cover as there is no damage to contents. Discuss how you should handle this matter.

(10 Marks)

(40 MARKS)