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# **The Chartered Institute of Loss Adjusters**

## **Associateship Examination 2015 (April)**

### **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) Explain the difference between Contribution calculated on the Independent Liability basis and Contribution calculated on the Sums Insured basis. (8 Marks)
- b) The agreed loss is £15,000. The Sum Insured against Policy A is £20,000 and against Policy B the Sum Insured is £60,000. Calculate the Contribution payable by each Policy on the basis of each Insurer's Independent Liability. (8 Marks)
- c) The agreed loss is £15,000. The Sum Insured against Policy A is £12,000 and against Policy B the Sum Insured is £35,000. Calculate the Contribution payable by each Policy on the basis of each Insurer's Independent Liability. (8 Marks)
- d) Using the same figures as in b) and c) above, calculate the Contribution payable in each case when using the Sums Insured basis. (8 Marks)

**NB: IN THE ABOVE EXAMPLES, ALL WORKINGS USED TO CALCULATE THE APPROPRIATE CONTRIBUTIONS MUST BE SHOWN.**

- e) You are dealing with a claim for fire damage to commercial premises where the Policy is subject to a 10% Co-Insurance Clause. Explain how this clause would operate when adjusting the claim and why a clause of this type would normally be applied to the Policy. (8 Marks)

**(40 MARKS)**

## QUESTION 2

a) When dealing with a claim under a typical Business Interruption Policy, what do you understand by the following terms:

1. Additional Increased Cost of Working
2. Denial of Access Extension
3. Declaration Linked Policy
4. All Other Circumstances Clause.

(4 Marks each)

b) Malicious Damage has occurred to a number of lock-up commercial units in an arcade of similar units in a busy suburban area. The damage includes smashed glazing and daubing of graffiti. You are instructed by your Principals to deal with claims for both Material Damage and Business Interruption for three of the units. These are:

1. A takeaway sandwich shop
2. A ladies nail bar
3. An antiquarian bookseller.

Pending renewal of the glazing and removal of debris etc, each of the units is closed for three days following the incident, which occurred after trading hours on a Monday night.

In dealing with the Business Interruption claims, explain what considerations will apply to calculating and validating turnover lost by each of these separate businesses as a result of their premises being closed during this three day period.

(18 Marks)

c) Following fire damage, explain briefly how you would deal with any salvage from:

1. A retail furniture store
2. A ladies clothing retailer.

(6 Marks)

**(40 MARKS)**

## QUESTION 3

a) Explain the following terms:

1. Day One Reinstatement Memorandum
2. Contract Price Clause
3. Professional Fees Clause
4. Appreciation in Value Clause (Escalator).

(4 Marks each)

b) Outline the main provisions of the following in the context of an insurance claim:



1. Party Wall etc Act 1996
2. Consumer Insurance (Disclosure and Representations) Act 2012
3. The Construction (Design and Management) Regulations 2007.

(18 Marks)

- c) You are handling a claim for an escape of water in a bathroom. The ceiling has a textured covering and you suspect it may have an asbestos content. Explain what steps you should take to protect Insurer's interest and that of the Policyholder.

(6 Marks)

**(40 MARKS)**

**PART 2**  
**ANSWER TWO QUESTIONS ONLY**

**QUESTION PD1**

- a) You are instructed to deal with a claim that has been reported for accidental damage to a domestic oil storage tank and its associated pipework. On investigation, you are informed by the policyholders that, on waking up one morning in January, they discovered that their oil-fired central heating system had not come on. They then contacted their heating engineer who investigated and found that the outlet pipe from the oil storage tank had become blocked with sludge and oil deposits that had accumulated over many years. The heating engineer eventually managed to unblock the pipe and restore the system to normal running order. This was quite a time consuming exercise for which the heating engineer submitted an invoice to the Insured for £1,000.00. They have submitted a claim for this amount on the basis that their Policy includes cover for Accidental Damage.

Explain how you should deal with the claim and what advice you should provide to your Principals.

(12 Marks)

- b) You are instructed to deal with a claim for damage to underground drains. Investigations show that the drains appear to have been damaged by slight ground movement over a period of time, possibly several years. Your Principals' Policy had been in force for just over six months, more competitive renewal terms having been available, when the damage, of which the Insured was previously not aware, was first discovered. Your Principals take the view that the claim should be dealt with by the previous Insurers on the basis that the damage predated inception of the current Policy. You are aware that the Insured had initially contacted the previous Insurers believing this was the correct procedure, but they have told the Insured that they are not prepared to become involved in any way and that responsibility for dealing with the claim rests entirely with the current Insurers.

How do you consider that this situation should be resolved?

(12 Marks)

- c) You are dealing with a claim that involves the theft of jewellery, most of which had been acquired over many years and no purchase documentation or recent valuation are available. Your Principals instruct that they will require "sufficient evidence to prove ownership".

On the basis of this instruction, what advice should you provide to both the Insured and your Principals? Detail the type of evidence that could be provided to support the claim.

(12 Marks)

d) Explain briefly the following terms:

- a) Sterling silver
- b) 18 carat gold
- c) Hallmark
- d) Clarity.

(4 Marks)

**(40 MARKS)**

## QUESTION PD2

On behalf of two separate Insurers, you are dealing with claims that have been submitted for damage to two adjoining properties at nos. 10 and 12 Waterside Meadows. The damage occurred during a period of torrential rainfall which overwhelmed the surface water drainage system and substantial volumes of water ingressed to the ground floor of each property to a depth of approximately 1 metre. The following morning, approximately eight hours later, and before any mitigation measures could be put in hand, a nearby stream, which had become swollen due to the volume of rainfall, surcharged and it would appear that the overflow waters from this source also ingressed into each building but to a much lesser extent. Both Policies cover buildings and contents against the usual range of perils, but the cover for no 12 is subject to a substantial excess of £5,000.00 for flood damage.

- 1) What advice should you provide to your respective Principals regarding the proximate cause of the loss?

(8 Marks)
- 2) What measures should you consider taking to mitigate the loss and what advice would you provide to each Policyholder?

(8 Marks)
- 3) In the case of no. 10, the sum insured applicable to contents is not adequate and represents only 50% of the replacement value. In such circumstances, your Principals' policy reverts to indemnity and they instruct you to make appropriate adjustments. You explain the position to the Policyholder who then states that, prior to your involvement, emergency contractors appointed direct by Insurers removed for disposal all the saturated contents from the building, and apparently commented that "the insurers would meet the full replacement cost". The Policyholder states that, if they were aware that the replacement cost would not be met, they would have wished to investigate the possibility of repair/refurbishment. How should you resolve this situation?

(8 Marks)

- 4) Pending reinstatement, neither property will be habitable. Since there was widespread damage of this type, there is no reasonably priced hotel accommodation in the area and there is a lack of suitable rental properties. Both families need to remain in the area for the purposes of employment and schools etc and neither family has any relatives in the area who might be able to accommodate them on a short-term basis. What advice should you provide to each Policyholder and their insurers?  
(8 Marks)
- 5) Having regard to the circumstances giving rise to the damage, explain, with reasons, whether or not any rights of subrogation may apply on this occasion.  
(8 Marks)
- (40 MARKS)**

### QUESTION PD3

1. Explain, showing calculations where appropriate, how you should conclude adjustment of the following claims. These all arise under a typical Household Policy and in each case Policy Liability has been admitted by your Principals.

- a) Following a theft, claim costs have been validated, prior to the application of any policy limits as follows:

General contents and personal effects	_____	£5,500.00
Valuables, including jewellery	_____	£17,500.00
Money	_____	£900.00
Policy Excess	_____	£250.00

The Sum Insured against contents is £30,000.00 which is not adequate, the value at risk being agreed at £50,000.00. The Valuables limit is £7,000.00 and the limit for money is £500.00. The policy stipulates that, in the event that the Sum Insured for contents is not adequate, pro rata Average will then apply.  
(10 Marks)

- b) Validated costs and cover details are the same as above but the value at risk has been calculated at no less than £75,000.00. In addition, and if underinsurance is identified, the Policy applicable stipulates that the claim will be dealt with on an indemnity basis. However, your Principals take the view that, due to the extent of underinsurance, this constitutes misrepresentation and that they are entitled to apply Average. Advise them how they should proceed.  
(10 Marks)
- c) A diamond ring valued at £5,000.00 has been lost. Cover is available under the All Risks extension for unspecified jewellery with a Sum Insured of £2,000.00. There is £500.00 Policy Excess. Explain the extent of Policy Liability in terms of the amount payable.  
(10 Marks)

2. Pro rata average applies under your Principals' policy. The Sum Insured for contents is £25,000.00 and it is agreed that the value at risk is not less than £50,000.00. The claim is validated at £5,000.00 and you inform the Insured, Mr and Mrs Smith, that, due to the extent of underinsurance, the amount payable by Insurers will be adjusted to £2,500.00.

Mr and Mrs Smith cannot understand why this should be the case since the amount of their claim falls well within the Sum Insured of £25,000.00 and they were under the impression that the Policy would cover them up to that amount. What explanation should you provide to Mr and Mrs Smith to demonstrate to them that the proposed settlement figure accurately reflects Insurers' liability in terms of the Policy.

(10 Marks)

**(40 MARKS)**