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**The Chartered Institute of Loss Adjusters**  
**Associateship Examination 2016 (October)**

**Paper C2**

**Application of the Principles of Insurance**

**3½ Hours**

**Maximum Marks 200**

**Answer 5 out of 6 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 5 OUT OF 6 QUESTIONS

### QUESTION 1

You are appointed to investigate a theft loss.

The Insurers provide domestic “All Risks” insurance on both the buildings and contents. The policy has “unlimited” Sums Insured. The buildings are insured on a reinstatement basis and the contents are insured on a new for old basis of settlement. The policy is subject to the typical terms and conditions of a Domestic policy. There is an extension of cover for property belonging to guests, limited to £2,000, and an indemnity basis of settlement.

The policyholder, Alan Johnson, is a train driver and lives alone at the property, a two-bedroom house in a city centre location.

At the time of the theft, Emma Jones, a friend of Alan Johnson visiting from Australia, was staying at the property.

The stolen property comprises:

- I. An electronic game console
- II. A desktop computer
- III. A collection of computer games and DVDs
- IV. A designer wristwatch
- V. £2,000 cash
- VI. An antique violin.

In addition, the premises sustained the following damage:

- I. Damage to the solid wood rear entrance door
- II. Damage to the frame of a timber window resulting from an attempted entry.

You confirm that the designer wristwatch and the antique violin belong to Emma Jones. Emma Jones confirms that she has no other insurance.

In the course of your site, visit you confirm that the premises are protected by an intruder alarm that was installed by A&B Alarms two weeks before the theft. The alarm failed to operate. Mr Johnson advised that, when the alarm company re-attended after the incident, they stated that the installation had been carried out incorrectly and that the engineer who completed the installation had now left the company as result of similar issues.

- A. Explain the principle of insurance that may give rise to a claim against the installing alarm company.

*(10 Marks)*

- B. Detail the practical steps that you should take in order to secure a recovery from the alarm company.

*(10 Marks)*



- C. Explain what is meant by reinstatement and new for old cover. (10 Marks)
- D. Explain, with reference to statute and case law, the term indemnity, and detail how the settlement of Emma's items is to be calculated. (10 Marks)
- 40 MARKS**

## QUESTION 2

You are handling a claim for smoke damage to trade contents comprising computer equipment and office furniture insured under a commercial office policy.

The smoke damage occurred as the result of a fire in adjoining premises.

- A. Explain, detailing your rationale, the actions you should take in relation to the following aspects of the claim:
- i) The smoke-damaged trade contents are damaged beyond economic repair. The insurance company instructs you to deal with the sale of the salvage. (10 Marks)
  - ii) Validation of the quantum. (10 Marks)
  - iii) Identification and substantiation of a potential recovery. (10 Marks)
- B. Explain the limitations under the terms of the policy that may apply to the claim settlement. (10 Marks)
- 40 MARKS**

## QUESTION 3

- A. Under a typical Domestic contents policy, detail what an Insurer would NOT cover in relation to the following insured events:
- i) Water or oil escaping from fixed water or heating installations
  - ii) Theft or attempted theft from a home
  - iii) Vandalism or malicious acts. (10 Marks)
- B. Under a typical Domestic contents policy, detail, with examples, the settlement options the Insurer has for a contents item that is lost or damaged. (10 Marks)



- C. Under a typical Domestic contents policy, detail five aspects of cover to which financial limits will apply. (10 Marks)
- D. Provide a typical definition to be found in a Domestic contents policy for the following key words:
- i) Personal belongings
  - ii) Contents
  - iii) Money
  - iv) Valuables
  - v) Your family
- (10 Marks)  
**40 MARKS**

#### QUESTION 4

- A. Detail, explaining your reasons, a risk that would be appropriate to insure on a First Loss basis. (10 Marks)
- B. Explain, using a worked example, how the settlement of a claim under a First Loss policy may be restricted by the Average Condition. (10 Marks)
- C. You are dealing with a claim under a commercial insurance policy for which policy liability has been accepted. There is a dispute regarding the quantum of the proposed settlement.
- i) Describe two options available for the resolution of disputes of this nature.
  - ii) Identify and explain the terms of the policy condition that outlines how disputes of this nature will be dealt with. (10 Marks)
- D. In relation to the handling of an insurance claim, detail the requirements and relevance of the following legislation:
- i) The Theft Act 1968
  - ii) Fire Prevention (Metropolis) Act (1774). (10 Marks)
- 40 MARKS**

#### QUESTION 5

You are appointed to investigate a loss that occurred on 12 August 2016 when the Insured's warehouse flooded.

The Insurers had issued a Fire and Special Perils policy in respect of property damage and Business Interruption. The inception date of the insurance was 1 July 2016.

The property is located on a flood plain and comprises a single storey, purpose-built industrial unit. The Insured are retailers of branded gifts for the local tourist trade. The goods are sold via six retail outlets across the region and on-line.

You are advised that water entered the warehouse overnight following a protracted period of heavy rainfall which caused a rapid rise in the water table. The entire warehouse remained flooded for over 12 hours before the water receded.

Your initial discussions with the warehouse manager determine that the property has suffered flooding on two previous occasions. When you inspect the warehouse, you find the stock is packed in cardboard boxes upon the concrete floor.

- A. Following your site visit, you consider it prudent for the Insurers to issue a Reservation of Rights letter to the Insured.
- i) Define Reservation of Rights.
  - ii) Detail the typical duration of a Reservation of Rights.
  - iii) Explain the reasons why you are recommending this approach to the Insurers.
- (10 Marks)*
- B. Considering the cause of the damage:
- i) Explain, detailing relevant case law, the principle of proximate cause.
  - ii) Noting the cause of this loss, discuss the proximate cause in relation to cover provided under the terms of the policy. Your answer should refer to relevant case law.
- (10 Marks)*
- C. With regard to the stock loss:
- i) Detail the warranty you would expect to be applicable.
  - ii) Explain, detailing your rationale, the information you would present to Insurers to enable them to consider policy liability in relation to compliance with the warranty.
  - iii) Discuss the position regarding mitigation and protection of the damaged stock.
  - iv) Detail the information you require to validate the nature, extent and value of the loss.
  - v) Explain the principles appertaining to stock insured on a Declaration Basis.

*(20 Marks)*

**40 MARKS**

## QUESTION 6

Explain each of the following terms in relation to insurance claims.

Your answer should include a practical example and, where appropriate, refer to the relevant case law and/or statute.

- A. Flood
  - B. Storm
  - C. Accidental damage
  - D. Fire
- (10 Marks Each)*  
**40 MARKS**