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The Chartered Institute of Loss Adjusters
Advanced Diploma Examination 2017 (April)

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

- A. You are instructed by your senior partner to handle a loss for Ambridge Farmers' Agricultural Machinery, a limited company based in the East of England. They have suffered a serious fire and are unable to fulfil a contract to supply agricultural equipment to a dealer located in Peru. The contract has a value of £2,000,000, with a gross profit in the order of £350,000.

You recognise the huge benefit of being able to find an alternative supplier and fulfil the contract by careful negotiation with the interested parties. Ambridge Farmers' Agricultural Machinery are delighted with this idea, but have highlighted that they do not want their rivals, Brookfield Agri, to benefit from the contract but are open to alternative suppliers.

You discuss the situation with the senior partner, who suggests two firms, Adams Agricultural Suppliers and Grundy Farming Supplies.

After two weeks of your own careful negotiation, you manage to secure agreement with the Policyholder, the customer and Insurers that Grundy Farming Supplies will fulfil the contract. This saves £150,000 gross profit.

The following day, you overhear your senior partner talking on the telephone telling an unknown person that he has shares in Grundy Farming Supplies. However, he adds "but it's all good with the Ambridge Farmers' Agricultural Machinery deal and Grundy"

Explain the ethical considerations you are faced with. Outline a realistic plan to consider the ethical considerations and how you will decide on your course of action. You are NOT required to state your decision, but you must explain your decision making process.

(20 Marks)

- B. You are handling a claim for Diverse and Sound Insurers Ltd. The claim is for the loss of a diamond and sapphire engagement ring made by a manufacturing jeweller in 1983 in London.

The claim is made by Mrs Caroline Sterling, who is a widow aged 78. There are no doubts about policy cover or that a loss has taken place. However, from your discussions you have concerns about the Policyholder's mental capacity and suspect that the loss has been substantially undervalued.

Explain how you should deal with this situation to ensure that the customer is treated fairly.

(20 Marks)

40 MARKS



QUESTION 2

You are handling a claim for an escape of water believed to be from a faulty sprinkler system. It has caused damage to stock comprising hi-tech electronic equipment including a newly developed “sound bar” with integrated artificial intelligence.

The sound bar with integrated artificial intelligence selects music for the owner based on the time of day and the weather. It also detects the level of pressure exerted by the user on the operating panel to calculate/judge the mood of the user.

Explain, detailing your rationale, the actions you would take in relation to the following aspects of the claim:

A. The salvaged sound bars -15 items have sustained damage to the packaging but are in full working order. To preserve their reputation, the Policyholder does not wish these to be sold.

(15 Marks)

B. Validation of the quantum.

(10 Marks)

C. Identification, evidencing and substantiation of a potential recovery.

(15 Marks)

40 MARKS

QUESTION 3

A. Provide and explain the definition of fraud in the Fraud Act 2006. Describe the three ways in which the offence of fraud may be committed under the Act.

(15 Marks)

B. Having suspected fraud on a claim, you are asked by your principal to explain the principle of dishonesty. Provide, with appropriate case law, the definition of dishonesty and provide contrasting examples of where someone may have acted dishonestly and secondly where they have acted honestly.

(15 Marks)

C. You are reporting to Insurers following identification of several fraud indicators. They have specifically asked about the burden and degree of proof required to repudiate the claim on the basis of fraud. Explain, with reference to case law, the level of proof required and state the reason for the level of proof that is required.

(10 Marks)

40 MARKS



QUESTION 4

A. Detail, explaining your reasons, a risk that would be appropriate to insure on a Declaration Linked Basis. (10 Marks)

B. Explain, using a worked example, how settlement using the Independent Liability Method of contribution works. (10 Marks)

C. You are dealing with a claim under a household insurance policy for which policy liability has been accepted. There is a dispute regarding the quantum of the proposed settlement.

I. Describe the Financial Ombudsman Service process available for the resolution of disputes of this nature. Your answer should include the requirements of the FOS of the policyholder. (10 Marks)

II. Identify and explain the terms of the policy condition that requires a policyholder to cooperate with investigations into the cause and quantum of a claim. (10 Marks)

40 MARKS

QUESTION 5

Explain, with case law, the principles of negligence and nuisance, including their definitions, what needs to be proved to be successful in pursuing a case and the defences that are available.

40 MARKS

QUESTION 6

A. Explain each of the following terms in relation to insurance claims. Your answer should include a practical example and, where appropriate, relevant case law and/or statute.

- I. Fire
- II. Subrogation
- III. Peril
- IV. Physical hazard.

(20 Marks)

(Continued)



- B. You are handling a claim for fire damage. It is believed the fire was caused by a defective tumble dryer. The start of the fire was witnessed by the Policyholder, who had set the machine running. You are to gain evidence in the form of a statement from the Policyholder. Specify, providing your rationale, the information you would seek to collect in the statement.

(20 Marks)

40 MARKS