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**The Chartered Institute of Loss Adjusters  
Advanced Diploma Examination 2017 (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

- A. Ms Brown's house was extensively damaged by a fire which resulted in the property being uninhabitable. Ms Brown has separate buildings and contents insurance policies which provide cover as follows:

**Insurer A Buildings** - Sum Insured £150,000. Alternative Accommodation Limit £30,000. Excess £500. The rebuilding cost of the insured property is £195,000.

**Insurer B Contents** - Sum Insured £50,000. Alternative Accommodation Limit £7,500. Excess £250. The contents value at risk is £45,000.

Both insurers have confirmed liability, subject to the terms and conditions of the policy. The total cost of the alternative accommodation expenses is agreed at £10,000.

You are acting for both the buildings and the contents insurers.

Explain, detailing your rationale, the apportionment of liability for the Alternative Accommodation expenses between Insurer A and Insurer B.

*(15 Marks)*

- B. Assuming policy liability has been accepted, outline the basis of settlement and the enquiries you should make to validate the ownership and the quantum of the following claims:

1. Domestic contents claim for the theft of two laptops and software.
2. Personal belonging claim for the loss of an item of jewellery described as a "solid gold bangle".
3. Commercial stock claim for fire and smoke damage to designer clothing in a retail shop.
4. Commercial contents claim for office computer equipment.
5. Domestic buildings claim for a water-damaged fitted kitchen.

*(25 Marks)*

**40 MARKS**



## QUESTION 2

A. Explain how the Insurance Act 2015 deals with the following issues:

- i) Breach of warranty
- ii) Fraudulent claims.

*(25 Marks)*

B. Outline the main provisions of the Consumer Insurance (Disclosure and Representations) Act 2012 and explain how these might apply to the adjustment of an insurance claim.

*(15 Marks)*

**40 MARKS**

## QUESTION 3

A. Under a typical domestic insurance policy:

1. Detail the exclusions an insurer would apply to the following perils:

- a. Escape of water
- b. Storm
- c. Theft.

*(10 Marks)*

2. Outline the claim settlement options an insurer has in the event of loss or damage to the insured property.

*(10 Marks)*

B. Under a typical commercial policy:

1. Explain the following terms:

- a. Day One Reinstatement
- b. Business
- c. Contents.

*(10 Marks)*

2. Explain, using a worked example, how a claim for trade contents (insured on a day one reinstatement basis) would be calculated when the Declared Value is underinsured.

*(10 Marks)*

**40 MARKS**



#### QUESTION 4

You are instructed to deal with a fire claim for the tenant of a fish and chip take-away in the residential district of a city centre location.

When the tenant first occupied the property in 2015, they undertook extensive improvement works comprising: refurbishment of the kitchen fittings including replacement of the deep fat frying range, refurbishment and extension of the existing exhaust extraction system, and replacement of the electrics, internal decorations and flooring. All of these works were completed with the Landlord's knowledge and permission.

Your Principals insure the Tenant under an All Risks Commercial Combined Policy covering the contents, including Tenant's fixtures and fittings and stock. The Policy also includes Business Interruption cover with a 12-month Indemnity Period.

The Landlord has a separate policy for the Buildings and Landlord's fixtures and fittings. On reviewing your Principals' instructions, you note that the Policy is subject to the following warranties:

1. Waste Warranty
2. Deep Fat Fryer Warranty
3. Stillage Warranty
4. Intruder Alarm Warranty.

During your initial site visit, it becomes apparent that the fire emanated from the deep fat fryer and/or associated ducting.

- A. Explain the immediate measures you would recommend to mitigate both the material damage and the business interruption loss.  

*(10 Marks)*
- B. Explain briefly, with reference to the warranties, the enquiries you would make to determine the cause of the fire and policy liability.  

*(10 Marks)*
- C. Explain the considerations you would apply to determine the liability between the Tenant's Fixtures and Fittings and the Landlord's Fixtures and Fittings for the following items:
  1. Internal decorations
  2. Tiled flooring
  3. Electric wiring
  4. Fitted kitchen units and worktops.

*(10 Marks)*



- D. The claim presented by the Insured includes additional costs for improvements to the exhaust ducting system which you are told are required to meet recent changes to the food hygiene regulations. Explain, detailing your rationale, the enquiries you would make to determine whether, or not, the additional costs can be included as part of the claim.

*(10 Marks)*

**40 MARKS**

### QUESTION 5

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

*(15 Marks)*

- B. You are handling a claim for water damage. It is believed the water damage was caused by the defective installation of a washing machine in the apartment located above the insured premises. Initial enquires indicate that the washing machine was installed by a plumbing contractor 3 days prior to the incident.

You have arranged to meet the occupier of the apartment in which the washing machine was installed.

Detail, providing your rationale, the information and evidence you would seek to collect to enable you to validate the opportunity to secure a recovery.

*(15 Marks)*

- C. You have successfully recovered £150,000 from a third party insurer. The costs related to the incident and the cover under your Principal's policy is detailed as follows:

- Total value of the loss £175,000
- Excess deducted £5,000
- Net policy payment £135,000
- Other uninsured losses £7,000.

Outline, explaining your rationale and with reference to relevant case law, the allocation of funds between your Principal and the Insured.

*(10 Marks)*

**40 MARKS**



## QUESTION 6

Explain each of the following terms in relation to the cover provided under a commercial buildings and contents policy.

1. Flood
2. Terrorism
3. Riot
4. Fire.

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

*(10 Marks Each)*

**40 MARKS**