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**The Chartered Institute of Loss Adjusters  
Advanced Diploma Examination 2018 (April)**

**Paper AD1**

**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 have been instructed to handle a loss sustained to both Buildings and Contents in an office complex. The insurance provides cover for the landlord. The complex is currently empty, following completion of renovation work, and there are no tenants. There is a sales office, which is staffed from 08:00 to 17:00 every day, and the intention is to attract small businesses to this now modernised office complex.

There is no Business Interruption cover.

On 10<sup>th</sup> January 2018 at 08:00 hours, emergency contractors were called to the premises after a member of the sales team arrived and discovered water throughout the ground floor.

The meteorological office had been warning that “Storm Nigel” was likely to hit this area of the country. Warnings had been given for two days in advance of the event. (Note that the UK Meteorological Office has an event naming protocol, hence “Storm Nigel”.)

The contractors find that a skylight has become detached from the roof, allowing rainwater to enter the building and causing saturation of walls, ceilings and flooring.

- a) Explain the enquiries that you would undertake to establish whether the Peril of Storm will operate. (Storm is a Peril for which cover is provided by the Policy.)

Your answer should detail your rationale and refer to relevant case law.

*(20 Marks)*

- b) A flat felt roof has leaked during the storm. Explain what enquiries you would make to consider whether this three-layer felt roof was damaged as a result of storm or is simply wear and tear.

Note: If you work in a geographical area that does not have three-layer flat roofs, you should state this and explain the enquiries you would make to consider whether a timber structure was damaged by storm or wear and tear.

*(10 Marks)*

- c) The owners of the site show you a large crack in a retaining wall. The wall was built decades ago by the owner of neighbouring land to support a raised platform on the neighbour’s land.

Explain what considerations you would give to the possibility of the retaining wall being included in a storm claim. Your answer should concentrate on issues specifically associated with retaining walls.

*(10 Marks)*

**40 MARKS**



## QUESTION 2

A contractor replaces a boiler in a domestic dwelling. Three days later there is an escape of water leading to considerable damage to the insured property, a modern brick-built house. You are instructed by the household buildings and contents insurers.

There are initially no concerns over policy liability. At the time of your first meeting, the Policyholder advises that he runs a sportswear wholesale firm and that he specialises in brands that are associated with top men's Premier League football teams, the French women's ski team and top American baseball teams.

At the end of the meeting, you advise the Policyholder that you are satisfied that policy liability is engaged and that you will be recommending that insurers accept the claim and move towards agreeing quantum.

Just as you are leaving, the Policyholder hands you a 'samples gift bag' containing promotional sportswear. He explains that this is generally handed out to top buyers and says that as you have been most helpful he would like you to take the gift bag as a 'thank you'.

- a) Explain how you should respond to this. You should provide detail as to what you would do, if anything, to protect your own, the insurers' and your employer's interests.

*(10 Marks)*

- b) Detail what information you would obtain to ascertain whether a recovery from the contractor who installed the boiler might be available and the steps you should take to ensure you validate quantum both for the purposes of the claim and the possible subrogation.

Your answer should include the information that you will require to substantiate both liability and quantum. Please note that you should detail the technical necessity for obtaining the information.

*(20 Marks)*

- c) After you have obtained all the information to pursue a recovery, the contractor's insurers contact your firm to request them to act on their behalf. You take the initial call from the insurers instructing your firm. Detail what steps you would take with regard to a possible conflict of interest to ensure you act in line with the Institute's guide to professional conduct.

*(10 Marks)*

**40 MARKS**



### QUESTION 3

Explain how you should handle each of the four scenarios detailed below.

For each scenario, you should explain typical policy considerations as well as the ethical and legal considerations in relation to the disclosure of material facts at both inception or renewal of an insurance policy.

- a) Insurers advise in their instructions to you that they are aware of two previous convictions of the Policyholder. The first was for petty theft in 1979 when the Policyholder was given a conditional discharge. The second was for taking a motor vehicle without the owner's consent for which the Policyholder was fined £1,500 two months ago.
- b) You are attending to a claim for a different Policyholder and visit his property to inspect damage to the bathroom. The Policyholder gives you estimates for repairs and amongst the papers you find a letter from a Court. It states that the Policyholder is in default of a County Court Judgment, the date of which is six months prior to the date of the event giving rise to the claim. The Policyholder sees that you have seen the letter.
- c) At the scene of a burglary, the Policyholder advises that she is very upset by what has happened. She says, 'I probably shouldn't tell you this, but I have a conviction for grievous bodily harm and if I find out who burgled my home they'd better be ready because I will seek revenge.'
- d) The Policyholder on another loss is confused when you arrive. He believes that you are a relative who has come to help him after his bath overflowed. He has baked a cake in preparation for your visit which he produces. The cake has been burnt and is inedible. He finally understands that you have been sent by his insurers. At this point, he says he is very sorry for causing so much trouble and states that he does not want any money for the damage and suggests that you leave.

*(10 Marks each)*

**40 MARKS**



#### QUESTION 4

- a) You are handling a claim for “Delay in Start-up”. The risk is a shopping centre on the outskirts of a major city which is due to host a major international sporting event within the next two months.

You establish that the cause of the “Delay in Start-Up” is covered by the Policy and the only issue you are now concerned with is quantum.

You were appointed by the “Lead Office” who state that the Peril giving rise to the claim attracts an Excess of £1,000,000. The claim is for £2,500,000 after all the agreed and accepted adjustments.

During the settlement discussion meeting, the Broker suggests that there is no Excess but there is in fact a Franchise. The Broker agrees the adjusted loss.

Explain the effect on the settlement figure dependent on whether the Broker is correct in that there is a Franchise NOT an Excess of £1,000,000.

*(5 Marks)*

- b) The issue concerning the Excess (on Policy A) having been agreed, i.e. there is a Franchise not an Excess, you establish that there is another policy in force which has a potential liability for the loss. That Policy (Policy B) is subject to a £1,000,000 Franchise.

Explain what principles need to be established to confirm whether Contribution will apply and calculate the apportionment of liability for each of the two policies on an Independent Liability basis.

*(10 Marks)*

- c) You are handling a claim for an insurer concerning loss suffered by a Private Limited Company. You meet the company director, Alice Aldridge, who states that as she owns all the shares in the company all payments should be made to in her name (Alice Aldridge). Explain, with your rationale, whether this is acceptable, or what would be needed to allow this to happen.

*(5 Marks)*

- d) Provide five examples of fraud indicators and detail the hazard/s associated with each fraud indicator.

*(10 Marks)*



- e) You are handling a claim for theft of household contents and, following appropriate enquiries, you have established that the claim is genuine and fortuitous as far as you can tell. You are now seeking to agree the settlement figure with the Policyholder.

The sum of £1,000 is claimed for a diamond pendant with an 18ct gold neck chain. You are provided with a receipt for the purchase and a valuation setting out details of the value and also the colour, cut, clarity and size of the diamond in the pendant. The policy limit for the item is £10,000.

Your enquiries identify that the item could not be replaced for less than £8,500 even taking into account any special terms that you are able to negotiate with reputable replacement jewellers.

Explain, detailing your rationale, how you should proceed with regard to the Policyholder, broker and insurer.

(10 Marks)

**40 MARKS**



## QUESTION 5

- a) Your junior colleague is in the very early stages of handling a claim for Escape of Water damage to a factory estimated to be in the order of £150,000.

Policy liability is engaged and there are no other Policies in force to provide Contribution.

The cause of the escape of water has not been accurately determined, although the water apparatus that leaked was installed only six months previously.

You establish that your junior colleague has not considered the possibility of a recovery.

Explain the advice that you would provide to your junior colleague concerning the importance of validating the actual cause of the leak. The advice should include the practical steps that should be taken, and consider alternative methods that could be employed.

*20 Marks*

- b) You consider it is appropriate to provide further guidance around the Tort of Negligence.

Using the escape of water claim as an example, explain in detail the principle of Negligence, including reference to:

- i) The Neighbour Test
- ii) The degree of care owed
- iii) Res Ipsa Loquitur
- iv) Volenti Non Fit Injuria.

*(20 Marks)*

**40 MARKS**

*Continued*



## QUESTION 6

- a) Explain the purpose and practical application of “Reservation of Rights” with regard to a Commercial Loss.

*(10 Marks)*

- b) Explain, using examples, the onus of proof when you are considering the following scenarios:

- i) The causation of a loss under a Perils policy
- ii) The causation of a loss under an All Risks Policy
- iii) Breach of a warranty
- iv) An exclusion under the Policy.

*(20 Marks)*

- c) Explain the principles of a stillage warranty and state clearly how you would verify whether the Policyholder has complied with a stillage warranty. Your answer should include the practical steps you should take, the evidence you should obtain and elements that might affect the insurers’ view concerning the materiality of any breach.

*(10 Marks)*

**40 MARKS**