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The Chartered Institute of Loss Adjusters

Advanced Diploma Examination 2018 (April)

Paper AD2

Property Domestic

3½ Hours

Maximum Marks 200

Answer Any Five Questions out of Six

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 ANY 5 QUESTIONS OUT OF 6

QUESTION 1

- A. Outline the main provisions of the Insurance Act 2015 and explain how these may be relevant to the adjustment of an insurance claim. *(20 Marks)*
- B. Explain the following terms and how they would apply to the adjustment of an insurance claim:
- i) Reinstatement Memorandum
 - ii) Public Authorities Clause
 - iii) Escalator Clause
 - iv) Contract Price Clause
 - v) 10% Co-Insurance Clause.

(20 Marks)

40 MARKS

QUESTION 2

- A. Explain the difference between Contribution calculated on an Independent Liability basis and the Sums Insured basis. *(6 Marks)*
- B. You have been appointed to deal with a claim for flood damage that has occurred at the Insured's property. Your Principals' Policy covers Contents, with the Buildings being covered separately by different Insurers.

Due to the extent of the damage, the Insured and his family require alternative accommodation. It is agreed with the Adjusters representing the Buildings Insurers that their Principals will initially finance these costs and that your Principals will contribute on the basis of each Insurer's independent liability.

Ultimately, the outlay of the Buildings Insurers is quantified at £10,000. The Sum Insured for such costs under that Policy is £25,000 whilst the Sum Insured under your Principals' Policy is £7,500. Additionally, and on first notification of the claim out of hours, your Principals agreed and paid for emergency hotel accommodation at a cost of £500.

Showing all relevant workings, calculate the Contribution now payable by your Principals.

(10 Marks)



- C. You are dealing with a claim presented to your Principals for the loss of a gentleman's gold watch. This occurred whilst the Insured was on holiday in France. The Policy includes cover for Unspecified Valuables with a Sum Insured of £5,000 and including a Single Article Limit of £1,500.

Your enquiries establish that the claim is in order and, allowing for Supplier's discount, the replacement cost of the watch is validated at £2,000. Accordingly, settlement is concluded at £1,500 on the basis of the Single Article Limit and this amount is paid to the Insured.

The Insured had disclosed a separate Travel Policy that would cover a loss of this type but with a Single Article Limit of £300. Your Principals request you to contact the Travel Insurers to obtain contribution of that amount towards the outlay they have incurred. What advice do you provide to your Principals on this issue?

(10 Marks)

- D. Explain the term "Subrogation" and how this might arise when dealing with an insurance claim.

Briefly discuss how the precedent established in the case of *Mark Rowlands Ltd v Berni Inns Ltd (1986)* impacts upon subrogation.

(8 Marks)

- E. Explain briefly the term "Salvage" within the context of an insurance claim and how this would normally be dealt with.

(6 Marks)

40 MARKS

QUESTION 3

- A. Discuss the circumstances under which it might be appropriate to evaluate a stock loss using the stock reconciliation method and also comment upon any potential disadvantages of using this method of validation. Explain how the loss would be calculated on this basis (figures need not be included).

(12 Marks)

- B. In a typical Business Interruption Policy, explain:

- i) The difference between Increased Costs of Working and Additional Increased Costs of Working. Give one example of each
- ii) The circumstances under which Cover under the Denial of Access Extension would be available
- iii) The term "Material Damage Proviso"
- iv) Declaration Basis of Cover.

(16 Marks)



- C. You are dealing with a claim for fire damage that occurred at a ladies fashion retailer in January 2018. Your Principals' Policy covers both material damage and business interruption, with a twelve month indemnity period applying to the latter. Due to the damage that has occurred, it is estimated that the shop will be closed for about two months whilst building repairs are completed.

Your enquiries have established that the Sums Insured against the various heads of cover, including business interruption, are all adequate apart from stock, the Value at Risk being confirmed at £100,000 against a Sum Insured of £75,000. You explain to the shop owner the application of average and that effectively she will receive only 75% of the stock claim, initially estimated at £50,000. The position is accepted but the Insured then raises the following issues:

Due to the shortfall in the stock claim, she will not be able to acquire her normal range of stock for the forthcoming summer sales period and this will impact adversely on her turnover during this time.

In addition, and due to the closure of the shop in the aftermath of the fire, she will be left with some undamaged seasonal stock which she may subsequently only be able to sell at a significantly reduced price.

She expects that any losses arising from these issues will be reimbursed within the scope of the Business Interruption Claim. What advice do you provide to her?

(12 Marks)

40 MARKS

QUESTION PD1

- A. Explain, showing calculations where appropriate, how you would 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.
- i) 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
Valuables, including jewellery	£17,500
Money	£900
Policy Excess	£250

The Sum Insured against contents is £30,000 which is not adequate, the value at risk being agreed at £50,000. The valuables limit is £7,000 and the limit for money is £500. The policy stipulates that, in the event that the Sum Insured for contents is not adequate, pro rata Average will then apply.

(10 Marks)



- ii) Validated costs and cover details are the same as above but the value at risk has been calculated at no less than £75,000. In addition, and if underinsurance is identified, on this occasion the policy applicable simply 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)

- iii) A diamond ring valued at £5,000 has been lost. Cover is available under the All Risks extension for unspecified jewellery with a Sum Insured of £2,000. There is a £500 Policy Excess. Advise the amount payable.

(10 Marks)

- B. You have been appointed to deal with a fire claim that has occurred at the home of the Insured. Your Principals' policy covers both Buildings and Contents. Following your initial survey, the loss is estimated at £35,000. There is no evidence that the fire was other than accidental and fortuitous so far as the Insured is concerned.

Based on comments made to the Insured by the Firefighters who attended the blaze, it appears that the fire may have originated within or adjacent to a freestanding fridge freezer in the kitchen. This was purchased about 15 months before the incident and had always worked satisfactorily with no previous problems.

The fridge freezer was severely damaged and, together with other damaged items, has been removed to the front garden by the Fire Brigade.

What initial enquiries would you carry out and what steps would you take to establish whether there may be any potential basis for pursuing Recovery of the outlays that will be incurred by your Principals.

(10 Marks)

40 MARKS



QUESTION PD2

Insurers have instructed you to deal with a claim for theft submitted by their Insured, Mr Smith, who is a self-employed builder. He lives with his family in a large detached house, which, when purchased about three years ago, was in need of general renovation and refurbishment. This has been carried out gradually by Mr Smith and, as part of the renovation project, he has built a single storey addition to the rear of the building. This is of brick construction with a flat felt-covered roof and with a set of French doors in the rear wall of the new structure. At the moment, these provide the only means of access but Mr Smith intends at some stage in the future to create direct access by knocking through the rear wall of the main building.

The new addition is used primarily as a games room for the Insured's children, and its contents include a television, computer and similar electronic goods. In addition, the Insured, a keen angler, stores all his fishing equipment there. Most of the contents were stolen during the course of the theft, the intruders gaining access by forcing the French doors whilst the Insured and his family were away for the day. No attempt was apparently made to enter any other part of the property.

Your investigations show that there is no reason to believe that the theft is other than genuine and quantum can be agreed at £3,000. However, in their initial instructions, and on the basis of the information provided on first notification of the loss by the Insured, your Principals suggest that this structure is effectively an outbuilding and, in that case, a limit of £1,000 for theft losses will apply as stipulated. There is no specific definition of "outbuilding" in the policy document.

You discuss this issue with Mr Smith who is adamant that this should not be classed as an outbuilding but as an extension to the main structure. He also makes it clear that, if this limit is applied, he will pursue matters further, involving the Financial Ombudsman Service if necessary.

A. What advice do you provide to your Principals? *(14 Marks)*

B. Explain the advantages, and discuss any possible disadvantages, of utilising network contractors to undertake building reinstatement. *(12 Marks)*

You are dealing with a claim for fire damage to a private dwelling. With the Insured's agreement, you have introduced Insurers' preferred network contractors to manage and carry out the necessary building repairs. These are extensive and it has been necessary for the Insured to source suitable temporary accommodation, which Insurers are financing. Unfortunately, due to an oversight, the Insured has no separate Contents cover and therefore no contribution to these costs will be available on this occasion.

It was initially considered that six months' accommodation would suffice and the lease was arranged on this basis. In the event, and due to unforeseen damage, reinstatement has taken longer than initially anticipated and you have agreed an extension for alternative accommodation for a further six months.



Unfortunately, there are continuing problems again involving unforeseen damage, but more significantly complaints have been received from the Insured regarding the quality of the work and that the contractors are not resourcing the project adequately, thus causing unnecessary delays. The outcome is that the extended period allowed for alternative accommodation may not be sufficient and a further extension may potentially be required. It is understood that the current rental property will still be available for this purpose but any extension would again be subject to a minimum six month let. However, the Sum Insured against alternative accommodation is almost exhausted and at most would be sufficient to cover a further two months in the current property, which in any event is, currently, the most optimistic timescale for completing the work at the Insured's home. That apart, other rental property in the area is in short supply, and enquiries show that those currently available would all require a six month minimum let. Even the cost of short-term budget hotel accommodation would be prohibitive.

The Insured is continually complaining to you and your Principals regarding the ongoing delays etc and you anticipate that, if the Insured is told that funding for the temporary accommodation may cease once the relevant Sum Insured has been exhausted, this will result in a most adverse reaction.

C. What action should you take to attempt to resolve the situation?

(14 Marks)

40 MARKS

Please turn over



QUESTION PD3

You are dealing with a claim that involves the theft of jewellery from the Insured's property. The Insured are an elderly couple in their late 80s and both appear to be in good health and mentally alert.

The Insured claim a total amount of £8,000 for the stolen items of jewellery. The majority had been purchased many years previously and some were antique items that had been inherited. The Insured have no supporting documentation such as original receipts or valuation certificates.

You instruct your Principals' normal jewellery suppliers to validate the claim. They contact the Insured to obtain full details and descriptions of the items involved and subsequently inform you that the minimum replacement value of the stolen items would be £15,000. Due to the age of the items involved, they cannot offer similar replacements, but if the Insured did wish to obtain modern replacement jewellery from them to the retail value of £15,000 they would be prepared to allow your Principals a discount of 20%.

Discuss each of the following scenarios in relation to the possible further progress of the claim and the issues that might arise in relation to each of these scenarios.

In conclusion, then explain what you would consider to be the correct basis for settlement and confirm what recommendations you would present to your Principals. For the purposes of answering this question, it is NOT necessary to consider the implications of any possible Policy Limits and you should assume that Policy cover is adequate.

- A) Since your appointed jewellers have validated the claim in excess of the amount claimed by the Insured, it is simply appropriate to recommend your Principals to settle in the sum claimed of £8,000. (10 Marks)
- B) Since you are now aware that the Insured have understated their claim, you invite them to resubmit it, obtaining their own valuations in support of any amended amount(s) claimed. (10 Marks)
- C) You confirm to your Principals that your appointed jewellers have validated the stolen items at £15,000. Since the items cannot be replaced on a like-for-like basis, you recommend them to pay the full validated amount and not the amount initially claimed. (10 Marks)
- D) You confirm to your Principals the validated amount but enquire whether they may wish to elect to replace and therefore obtain the benefit of the 20% discount. Alternatively, if the Insured do not wish to be supplied with modern replacements, you seek your Principals' instructions on whether they wish to consider concluding settlement on a cash basis at £15,000 less the discount available. (10 Marks)

40 MARKS