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**The Chartered Institute of Loss Adjusters**  
**Associateship Examination 2015 (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

Explain the following terms in relation to insurance claims. Where appropriate, refer to the relevant case law and/or statute.

- A. Flood
- B. Reinstatement Condition
- C. Arbitration Condition
- D. Reservation of Rights
- E. Storm

*(8 Marks each)*

**40 MARKS**

### QUESTION 2

You are instructed to deal with a fire claim for the tenant of a Chinese food restaurant and take-away in an inner city location. The property is situated in a terrace of commercial properties comprising food outlets and retail businesses.

Prior to the Insured occupying the property in 2012, the property was a café. After occupation, the Insured stripped and refurbished the kitchen fittings and added a deep fat frying range and an exhaust extraction system. With the Landlord's permission, the Insured also upgraded the interior lighting and refurbished the internal decorations.

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. You confirm that 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:

Waste Warranty  
Deep Fat Fryer Warranty  
Stillage Warranty  
Intruder Alarm Warranty.

In the course of your 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 take 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 Tenant's Improvements and Landlord's Fixtures and Fittings for the following items:

Kitchen units

Internal decorations

Exhaust ducting

Ceiling spotlights in a suspended ceiling.

*(10 marks)*

D. Following the fire, the local authority investigates the incident and raise concerns regarding the design and materials used in the manufacture of the exhaust extraction system.

The Insured indicates that, to meet the suggested requirements, there will be a significant increase in the replacement cost of the exhaust extraction system.

Discuss policy liability and explain the issues you will consider as a result of this information.

*(10 marks)*

**40 MARKS**



### QUESTION 3

- A. Define the term “Business Ethics”.  
*(3 marks)*
- B. Using an example related to the management of a claim, explain the stages of “Ethical Decision Making”.  
*(12 marks)*
- C. Discuss the advantages and disadvantages of using stock reconciliation as a method to validate a stock loss.  
*(10 marks)*
- D. Explain the extent of cover provided under a sprinkler leakage extension to a standard fire policy.  
*(5 marks)*
- E. You have a claim for extensive fire damage to the entire stock of a ladies dress shop.
- i) How should the reinstatement value be calculated and what enquiries should you make to establish quantum and value?  
*(6 marks)*
  - ii) You are notified that the business is under the control of liquidators. How, if at all, would this affect the basis of settlement?  
*(4 marks)*

**40 MARKS**



#### QUESTION 4

You have been instructed by RXP Insurance Company PLC to deal with a fire at a domestic property.

The risk property comprises a two storey three bedroom semi-detached dwelling house in a remote rural location.

The policyholder, Mr Paul Honeywell, a systems analyst, occupies the property with his girlfriend, Jean Havell. Ms Havell shares the custody of her two children from a previous relationship. The children reside at the property every other week.

You are advised that the fire started within a recently installed pottery kiln located in the integral garage of the property. The fire was discovered by a passing cyclist who was alerted by smoke escaping around the garage door.

The buildings and contents are insured under a domestic policy. The Policy schedule confirms that the policy is in Mr Honeywell's name only and the following cover is available:

Buildings	£250,000
Contents	£25,000

There is a single article limit of £1,500 for "Valuables". The policy has an intruder alarm warranty. Buildings is on a reinstatement basis and Contents is on a new for old basis of settlement.

The guest cover is limited to maximum payments of £2,500 and is on an indemnity basis.

The fire and extinguishment water has caused extensive damage to the structure and contents of the integral garage and the master bedroom above. There is also extensive smoke contamination of the contents and surfaces throughout the remainder of the property.

A. Explain, detailing your rationale, the enquiries you would undertake to establish the extent of cover available to Ms Havell for loss and damage to property belonging to her and her two children. This aspect of the claim includes furniture, electrical items, clothing and personal effects.

*(10 marks)*

B. Your enquiries identify that, at the time of the incident, the property was unoccupied and the intruder alarm had not been set. In addition, the fire door, a final exit door, between the integral garage and the dwelling was left open.

To give this full consideration, detail the information you require from both Mr Honeywell and the insurance company.



Explain the potential effect of this information upon policy liability.

*(10 marks)*

- C. You are advised that the pottery kiln was owned and used by Mr Honeywell for the manufacture of items for sale on behalf of a local charity. The reconditioned kiln had been supplied and installed by a specialist contractor two months prior to the incident.

Outline your views regarding the inclusion of the kiln within the Insured's domestic insurance claim.

Detail the practical steps that should be taken to best secure a recovery from the supplier and installer of the kiln.

*(10 marks)*

- D. Following your inspection of the property, you are of the opinion that the total value of the contents at the time of the incident significantly exceeds the contents sum insured.

Detail the enquiries you will undertake to determine the contents value at risk and explain the likely consequences upon the claim settlement if your opinion is confirmed.

*(10 marks)*

**40 MARKS**



### QUESTION 5

- A. Explain three variations of Average which may be found in commercial insurance policies. Your answer should include a worked example of the operation of each of the three variations.

*(15 marks)*

- B. i) Explain First Loss Insurance outlining the circumstances in which it is an appropriate basis of insurance.

*(5 marks)*

- i) Using a worked example, demonstrate how the settlement is calculated if, at the time of the loss, the Declared Maximum Value at Risk is less than the Actual Value at Risk.

*(5 marks)*

- C. Your enquiries into a claim presented under the Reinstatement Memorandum establish the following:

Sum Insured	£800,000
Agreed Loss	£90,000
Value at Risk at inception	£750,000
Value at Risk at time of loss	£900,000
Value at Risk on completion of the reinstatement	£1,000,000

Calculate your settlement proposal, detailing your rationale and appropriate workings.

*(15 marks)*

**40 MARKS**

### QUESTION 6

- A. Explain the principle of Subrogation, with the use of leading legal cases.

*(10 marks)*

- B. As the loss adjuster acting on behalf of a material damage insurer, you recover funds from the third party insurers. The recovery and material damage insurance details are as follows:

Amount recovered	£250,000
Agreed loss	£300,000
Excess deducted	£20,000
Net policy payment	£230,000
Other uninsured losses	£50,000



Draft a letter to your Principals, using appropriate case law, outlining the allocation of recovered funds between the Insured and Insurer.

*(10 marks)*

- C. Explain, with reference to case law, the conditions that must be in place for a right of contribution between insurers to arise.

*(10 marks)*

- D. Mr Adams has claimed on his domestic contents insurance for the cost of replacing a damaged television he purchased as new 12 months ago. Insurers have accepted liability for replacement of the television.

Mr Adams is also claiming the unused period of a 5 year extended warranty on the television that he purchased at the same time.

In note form, outline your consideration of the insurer's liability for the extended warranty under the terms of a domestic policy.

*(5 marks)*

- E. Under the terms of a standard fire policy, outline the obligations of an Insured with regard to damaged property.

*(5 marks)*

**40 MARKS**