

# **The Chartered Institute of Loss Adjusters**

**Associateship Examination  
October 2008**

## **Paper C3 Adjustment of Claims Subsidence**

**3½ Hours**

**Maximum Marks 200**

**ANSWER ALL QUESTIONS IN PART 1  
and  
2 QUESTIONS FROM PART 2**

**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.**

## **PART 1**

### **ANSWER ALL QUESTIONS**

#### **QUESTION 1**

You are dealing with a claim for Business Interruption following extensive flood damage which has occurred to the Insured's factory. The Insured are manufacturers of biscuits and confectionery products. They operate from two separate sites approximately 100 miles apart. The site at which the loss occurred specialises in the production of biscuits for a variety of supermarket own labels and the like. The other site produces biscuits and confectionery of higher quality and value under the Insured's own well known brand names.

The Policy covers Business Interruption at both sites against which separate sums insured are allocated and the wording of the Policy follows the typical format. For the site at which the loss occurred, gross profit is covered for £20 million on a sum insured basis and a 24 month indemnity period is applicable.

- a) What action would you take at the time of your initial site visit and what information would you obtain at that stage.
- b) Following your initial visit, prepare a document request list for submission to the Insured. Explain briefly against each item your reasons for requesting such documentation.
- c) Assuming that Insurers subsequently accept Policy Liability, list any points which you think should be considered before proceeding to conclude adjustment of the claim.

**40 Marks**

#### **QUESTION 2**

You are instructed to deal with a claim for substantial fire damage which occurred at a garden centre on the 30 August 2008. The fire originated within the main retail showroom and investigations established that this was attributable to an electrical defect. The showroom contained a wide variety of goods including house plants, artificial flower displays, gardening equipment and machinery, garden furniture, outdoor clothing, beverages, confectionery, books, DVD's, together with assorted household and sundry items. Due to the extent of the damage only a few items remain identifiable within the debris which includes part of the roof structure which collapsed during the course of the fire. In the circumstances, and in view of the extent of the devastation which has occurred, it is agreed at your initial attendance at the site that the only practical method of dealing with the stock claim is by means of a stock reconciliation.

- a. Outline what you consider to be the advantages and disadvantages of a claim based on a stock reconciliation.  
10 Marks
- b. What preliminary actions would you take and what documentation would you request at that initial meeting relating to the stock reconciliation.  
10 Marks
- c. Set out the calculation (figures need not be included) that you will be drawing up to determine the theoretical stock loss.  
10 Marks
- d. What further adjustments, if any, to the theoretical stock loss might you wish to consider before agreeing settlement.  
10 Marks

**Total: 40 Marks**

**QUESTION 3**

Where applicable, in all parts of the following questions all workings must be shown.

- a. In a Policy with a 20% Co-Insurance Clause calculate the sum payable for loss of stock:

Agreed Loss	£ 50,000.00
Sum Insured on Stock	£100,000.00
Value at Risk	£100,000.00
Excess	£ 500.00
Salvage Value	£ Nil

8 Marks

- b. Using the same figures as detailed above, explain if any different considerations would apply if the Insured had arranged additional cover for stock with separate Insurers. The sum insured on the said Policy is £25,000.

8 Marks

- c. In a Policy with a pro-rata average condition calculate the amounts payable:

i.	Agreed Loss	£200,000.00
	Sum Insured	£100,000.00
	Value at Risk	£250,000.00
	Salvage Value	£ Nil
	Excess	£ 1,000.00

8 Marks

ii.	Agreed Loss (subject to salvage)	
	£150,000.00	
Sum Insured		£100,000.00
Value at Risk		£150,000.00
Salvage		£ 10,000.00
Policy Excess		£ 1,000.00
		8 Marks

d. In dealing with a Business Interruption claim with cover arranged on a declaration basis, calculate the amount payable:

Agreed Loss of Gross Profit	£150,000.00	
Sum Insured	£200,000.00	(declaration linked)
Insurable amount	£250,000.00	
Accountants fees for certifying turnover figures at the request of Insurers	£ 1,500.00	

8 Marks

Total: 40 Marks

**Part 2**  
**Subsidence**  
**Answer 2 questions only**

**Question S 1**

You are instructed by Insurers to investigate cracking to the single storey front bay window of an owner occupied semi detached house, 40 years old. The occupant who you meet is rather elderly and appears impecunious, advises that the cracking is new and has just come to light as a result of trying to sell the building. Before that time, the owner claims that no damage was noticed. However there is clearly evidence of old repairs having taken place. The woodwork around the bay window is in an advance state of rot.

There are a selection of trees and bushes in the front garden, including along the boundary. Ownership of the boundary hedgerow is unclear.

The general pattern of cracking is one of rotation of the bay away from the main part of the building structure

The insurance policy in operation is typical and provides cover for subsidence, heave and landslip both buildings and contents. The policy has been in operation for 25 years, and the sum insured is deemed adequate, but the property appears poorly maintained. There are no reports available regarding the condition of the property at the time of inception.

The homeowner is particularly concerned about the progress of the sale of the house and is keen that the house sale proceeds.

You are dealing with the claim under a 'standard' delegated authority arrangement subject to a limit of liability of £20,000

- a. What is likely to be your 'starting position' as far as policy liability is concerned. (10 marks)
  
- b. Briefly advise what you would say to the owner at the first meeting on the likelihood of the sale proceeding? (8 marks)
- c. Detail the typical enquiries you would make or expect to see, to establish the cause of the problem, taking into account the limited and localised degree of the damage. (10 marks)
  
- d. As part of the second phase of the investigation, root analysis is undertaken which indicates that they originate from trees both within the insured own garden and also along the boundary. Insurers agree that any late notification is innocent and they instruct you to proceed to

settlement. What considerations might you have in terms of the basis of settlement of the claim ?  
(10 marks)

- e. It is agreed by all parties that a period of monitoring of the cracks is needed following removal of the hedgerow. Name two ways that this could be done. (2 marks)

Total 40 marks

## **Question S 2**

Under a standard delegated authority scheme for subsidence handling, you are instructed to investigate cracking to the conservatory at the side of a bungalow.

Upon examination you discover that the cracks appear recent. The insured has owned the property for 5 years and confirms that she has not carried out any repairs nor are there any signs of earlier repair. The conservatory was built less than 12 months ago.

A well established 20m high Willow tree owned by the insured is located approx 10 metres away from the rear extension.

- a. What initial investigations would you wish to undertake given the circumstances and the scale of the problem. (10 marks)
- b. Detail the typical enquiries you would make or expect to see, to establish the cause of the problem. (10 marks)
- c. You discover that the foundations of the conservatory are very shallow, barely below ground level, and that the conservatory superstructure is in fact erected upon foundations constructed by the insured themselves. What possible exclusions might operate in respect of policy liability, and explain your rationale? (4 marks)
- d. What 5 actions would you take bearing in mind the Delegated Authority nature of the instruction? (10 marks)
- e. The insured becomes aggressive as you have not agreed to deal with the claim without question, and wishes to formally complain. Explain the stages which any complaints process will usually follow (6 marks)

Total 40 marks

### **Question S 3**

A large Willow owned by a neighbour appears to be causing subsidence damage to your insured's property. Because of the proximity of the tree, and the possibility of a recovery action you decide to appoint an expert.

- a. What are the typical qualifications or trade memberships that you would expect to see from this tree expert ? (2 marks)
  
- b. Outline 5 key elements that you might expect to see in the tree experts report? (10 marks)
  
- c. As you had expected, the tree expert identifies that the roots discovered beneath the extension originate from the Willow tree in the neighbouring garden. Referring to relevant case law, what are the four elements for a successful recovery of your insurers eventual outlays? (5 marks)
  
- d. Draft a simple letter – one page only – which you would send to the next door neighbour (10 marks)
  
- e. The Neighbour responds by advising that the tree is positively contributing to the environment, and on that basis wishes to take an ethical stand against its removal. What 3 points might you wish to make in respect of this line of thinking? (3 marks)
  
- f. The Neighbours liability insurers respond by indicating that, in their opinion, there is insufficient evidence to implicate the tree which, in any event, was there before the damaged house of was built. As a result you agree to arrange for detailed site investigation to confirm the cause of damage. Indicate the nature of the further investigation you might expect is needed to 'prove the case'. (5 marks)
  
- g. The willow tree is confirmed as being a major contributory factor. What options might be available to stabilise your insured's property. Illustrate with simple sketches if possible. (5 Marks)

Total 40 marks

