



STRICTLY PRIVATE & CONFIDENTIAL
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The Chartered Institute of Loss Adjusters
Associateship Examination 2016 (October)

Paper C3 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.

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PART 1
ANSWER ALL QUESTIONS

QUESTION 1

- A. You are appointed by Insurers to deal with a claim for moderate fire damage which has occurred to a café in a town centre location. The café provides the usual range of non-alcoholic beverages, light meals, sandwiches and cakes etc and has seating for thirty customers. It is open between 8.00 am to 5.30 pm each day except Sundays.

Your Principals' Policy covers all Trade Contents and Stock together with Business Interruption. The latter covers Loss of Gross Profit on a Sum Insured Basis - £150,000.00 - with a twelve month indemnity period. There are no specific extensions and the policy wording is typical for a small business. The building is separately insured by the Landlord.

The precise cause of the fire is not determined but there is no evidence that it was other than accidental. Policy liability has been accepted by your Principals (and by the Landlord's Insurers) and you have already agreed the material damage element of the claim. To allow for the repair/replacement of damaged equipment, acquisition of new stock and repair of the building damage, it is estimated that it will be approximately eight weeks before the Insured can resume trading. Due to the nature of the business, it is accepted that it will not be feasible to consider partial reopening whilst building repairs and other remediation are ongoing.

- i) At the time of your initial visit, what advice generally should you provide to the Insured regarding the Business Interruption element of the claim?
- ii) What information and documentation should you require to enable you to verify the loss of turnover during the interruption period and to calculate the Rate of Gross Profit?
- iii) How should you determine whether the Sum Insured against Gross Profit is adequate or otherwise? If it is not adequate, how might this impact upon the claim?

(20 Marks)

- B. Discuss the circumstances under which it might be appropriate to evaluate a stock loss using the stock reconciliation method and also comment on 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)



- C. In the context of an insurance claim, what do you understand by the term “Salvage” and how would you deal with this if identified during the course of the claim?

(8 Marks)

40 MARKS

QUESTION 2

1. Explain briefly the term “Warranty” when applied to a policy of Insurance.
(4 Marks)

2. Specify two warranties that might apply to each of the following:
 - a) Takeaway fish and chip shop
 - b) Vehicle repairer.*(4 Marks)*

3. In a typical Commercial Policy covering both material damage and business interruption, what is meant by the following terms:
 - a) Reinstatement Memorandum
 - b) Public Authorities Clause
 - c) Loss of Attraction
 - d) Departmental Clause.*(12 Marks)*

4. In dealing with claims for building damage, discuss briefly the possible advantages and disadvantages of instructing, on behalf of insurers, their network building contractors to carry out the necessary repairs. Draft a letter to explain this procedure to a Policyholder who would prefer to use the services of his/her preferred local contractor and who is concerned that the appointment of a network contractor may impact upon the quality and standard of the work with a view to minimising Insurers’ expenditure. The Policyholder also requires advice as to who will guarantee the work and the procedure for remedying any subsequent defects should the network contractor cease trading or be removed from the network. NB Your own name must not appear in this draft letter.
(15 Marks)

5. Calculate the amounts payable by each policy, on the basis of each Insurers’ independent liability, for the costs of Alternative Accommodation as follows:



Sum Insured - Buildings Policy - £50,000.00

Sum Insured - Contents Policy - £15,000.00

Total cost of Alternative Accommodation - £18,000.00

NB All arithmetical workings must be shown.

(5 Marks)

40 MARKS

QUESTION 3

You are instructed to deal with a claim for fire damage to a terraced, two storey, three bedroomed, tenanted private dwelling. Your Principals provide buildings cover to the landlord and the tenants have separate cover for their own contents with other Insurers. The tenancy agreement stipulates, amongst other things, that the landlord will arrange the necessary buildings insurance and also includes a cessor of rent clause in the event of the dwelling or any part being rendered uninhabitable due to fire or other insured damage.

Preliminary enquiries have shown that the fire was probably caused by a carelessly discarded cigarette end in the kitchen waste bin. The tenants do not smoke but admit that their daughter's boyfriend, who had been at the house on the day of the fire, is a smoker. Extensive damage was caused to the kitchen by the direct effect of the fire and to the remainder of the internal accommodation by the effects of heat and smoke contamination. The house will not be fit for normal occupation until the necessary repairs are complete.

Explain how you should deal with the following items of claim that have been presented to your Principals and the various issues listed. For the purposes of this question, assume that the Policy provides typical cover, that the Sum Insured is adequate and that Policy Liability is admitted.

1. Damage to fitted kitchen units and appliances. The tenants had replaced the original units in place at the start of the tenancy with better quality units and had also supplied a free-standing cooker. These items were installed by the tenants at their expense with the approval of the landlord. The replacement kitchen appliances include an integral washing machine, dryer and a fitted oven and hob.
2. Vinyl floor covering in the kitchen, again installed by the tenants with the landlord's approval.



3. Light fittings in the ground floor accommodation, again installed at the tenants' expense but without notification to the landlord.
4. Decorations throughout. These include areas where the tenants have applied upgraded wall coverings, again with the landlord's approval.
5. At the time of the fire, the tenants were in the process of redecorating part of the first floor accommodation. They had purchased rolls of wallpaper which had not yet been used but are now worthless due to the effects of smoke. Their purchase cost was £350.00 and your Insured has included this amount within the claim so that they can be reimbursed.
6. Fitted floor coverings. These were provided by the tenant.
7. Replacement of a number of double-glazed windows in the ground floor accommodation. However, you learn from your discussions with the tenant that the landlord had already agreed to replace two of these windows as their seals were defective.
8. Alternative accommodation requested by the tenant until the building is fit for habitation.
9. Your Principals' policy is subject to a £500.00 excess. As it appears that the fire was caused by a carelessly discarded cigarette, the landlord seeks your advice as to whether you will be pursuing recovery against the tenants and, if so, whether he can include the excess within this procedure. This is on the basis that, in the terms of the tenancy agreement, the tenants agree that they will not smoke, or permit smoking, within the premises.

40 MARKS



PART 2
ANSWER TWO QUESTIONS ONLY

QUESTION S1

You are appointed on a retained authority basis for subsidence handling and are instructed to investigate cracking to a single storey extension to the rear of a 1980s semi-detached house. The extension was built around 2008 and you are advised that the customer had a previous claim in 2011. Unfortunately, the details of the claim are not available other than the fact that the expenditure on the previous claim amounted to £9,800.

There is also a similar claim for the neighbouring property which has a similar extension. The neighbouring property is insured with a different insurer and a different loss adjuster has been appointed to handle that claim.

There is no indication of cracking or damage to the main dwelling. Upon further examination, you discover that there is evidence of previously repaired cracks at the junction of the extension and main dwelling.

There is a tree of unknown species, owned by the insured, which is 8 m high and 4 m from the rear wall of the extension. In the back garden, there is a row of conifers on the boundary but in the neighbour's garden. These are 9 m high and the nearest is 3 m away.

There is also an oak tree in land to the rear which is part of a local park owned by the Local Authority

It is known that the underlying ground conditions are London clay.

You measure the original house and the extension and discover the sum insured is only 75% of the value at risk.

The policy is a typical domestic policy with the normal exclusions relating to the peril of subsidence, as detailed below:

- *The first £1,000 (unless a different subsidence excess is shown in your schedule).*
- *Damage caused by coastal or river erosion.*
- *Damage to garden walls, gates, fences, paths, drives, patios, swimming pools, tennis courts, lamp posts, septic tanks and central heating tanks unless the foundations beneath the external walls of your home are damaged at the same time, by the same cause.*



- *Damage to, or resulting from, the movement of solid floor slabs unless the foundations beneath the external walls of your home are damaged at the same time, by the same cause.*
- *Damage caused by demolition, structural alteration or structural repair, excavation, faulty design or faulty workmanship or the use of defective materials.*
- *Damage resulting from the bedding down of new buildings or settlement, shrinkage or expansion.*
- *Damage that is covered under an NHBC Certificate or other similar guarantee.*

Home - The private dwelling shown in your schedule, together with its garages, outbuildings, sheds and greenhouses all owned or used by you for private and domestic purposes.

1. Outline the main headings you should include on an ABI preliminary report format including, in bullet point form, the main points you would raise under each section.
(18 Marks)
 2. Upon reviewing drawings provided by the policyholder in respect of the extension, you note that the proposed foundation depth is shown at 750 mm. Detail the investigations you should make, or expect to see, to establish the cause of the problem.
(10 Marks)
 3. You instruct an Arboricultural Consultant. Outline five things that you might expect to see in the expert's report relevant to the claim.
(4 Marks)
 4. The tree expert identifies that roots discovered beneath the extension originate from the oak tree in the park. Draft a simple letter - one page only - that you would send to the third party, assuming it is the Local Authority who owns the tree.
(8 Marks)
- 40 MARKS**



QUESTION S2

You are instructed by Insurers to investigate cracking to a purpose-built block of flats. The building is two storeys high with six flats on each floor. The property is around 5 years old. You are instructed by the insurers of the whole block. The insurers have only been on cover for 6 months.

The freehold of the building is owned by Borchester Land Ltd and the residents have their own management company. The management company have obtained a report from an engineer that suggests the site may be suffering from ground heave.

It is a perils-based policy, extract below:

Subsidence Ground Heave and Landslip

DAMAGE caused by Subsidence or Ground Heave of any part of the site on which the property stands or Landslip excluding:

- a) *the first £1,000 of each and every loss in respect of Section 1 at each separate premises as ascertained after the application of any Condition of Average*
- b) *DAMAGE to yards car parks roads pavements walls gates and fences unless also affecting a building insured hereby*
- c) *DAMAGE caused by or consisting of*
 - i) *the normal settlement or bedding down of new structures*
 - ii) *the settlement or movement of made-up ground*
 - iii) *coastal or river erosion*
 - iv) *defective design or workmanship or the use of defective materials*
 - v) *fire subterranean fire explosion earthquake or the escape of water from any tank apparatus or pipe*
- d) *DAMAGE which originated prior to the inception of this cover*
- e) *DAMAGE resulting from*
 - i) *demolition construction structural alteration or repair of any property or*
 - ii) *groundwork or excavation at the premises*

Special Conditions

Insofar as this insurance relates to DAMAGE caused by Subsidence Ground Heave or Landslip:

- a) *The Insured shall notify the Company immediately they become aware of any demolition groundworks excavation or construction being carried out on any adjoining site*
- b) *The Company shall then have the right to vary the terms or cancel this cover*



1. Describe what enquiries you should make and what key points you would report to Insurers.
(18 Marks)
2. Subsequent desktop enquiries reveal the property is constructed on 8 m deep piles with ground beams with anti-heave provision. What investigations and testing should you ask the engineer to implement?
(8 Marks)
3. The chairman of the management company makes a complaint about the scope of the work and delays, and advises that they want the matter referred to the Financial Ombudsman. How should you deal with this?
(4 Marks)
4. You discover that six out of the twelve leaseholders have contents insurance. There is a potential need to move all residents out to facilitate repairs. What enquiries and recommendations should you make in respect of the Alternative Accommodation (policy extract below)?
(5 Marks)

Policy section on AA

Alternative Residential Accommodation

If as a result of DAMAGE the residential portions of the Property Insured are unfit to live in or access is denied the Company will pay insofar as they are not otherwise insured

- a) *the costs of reasonable alternative accommodation and temporary storage of residents furniture.*
- b) *the cost of reasonable accommodation in kennels or catteries for residents' dogs and cats*

Provided the liability of the Company under this Extension shall not exceed 33.3% of the Sum Insured on the Property Insured which has been damaged

5. Assume liability is accepted. Outline the options for repairing the property, indicating the pros and cons for each option. Indicate what heads of claim you should need to include in the reserve for each option.
(5 Marks)

40 MARKS



QUESTION S3

You are called to inspect a three storey building which consists of offices on the first and second floors with a warehouse storage area on the ground floor. The premises were built in 2009.

The damage relates to a 1.5 m high retaining wall forming the edge of the car park. It is constructed from concrete blocks and the wall is approximately 30 m long.

A claim has been made detailing that damage has occurred as a result of ground movement following a period of excessively heavy rainfall. The damage takes the form of cracking, partial collapse of the retaining wall and some lateral movement to the remainder.

In addition, there is downward movement of the floor slab of the warehouse. The maximum downward movement is around 100 mm.

The policy wording for subsidence is:

Subsidence or ground heave of any part of the site on which the property stands or landslide excluding:

- a)
 - i) *DAMAGE to land insured hereby unless also affecting a Building insured hereby*
 - ii) *CONSEQUENTIAL LOSS in respect of land insured hereby unless a building at the same premises used by the Insured for the purpose of the Business is also damaged thereby*
- b) *DAMAGE or CONSEQUENTIAL LOSS caused by or consisting of:*
 - i) *the normal settlement or bedding down of new structures*
 - ii) *the settlement or movement of made-up ground*
 - iii) *coastal or river erosion*
 - iv) *defective design or workmanship or the use of defective materials*
 - v) *fire, subterranean fire, explosion, earthquake or the escape of water from any tank, apparatus or pipe*
- c) *DAMAGE or LOSS loss resulting from:*
 - i) *destruction or damage which originated prior to the inception of this cover*
- d) *DAMAGE or CONSEQUENTIAL LOSS resulting from:*
 - i) *demolition, construction, structural alteration or repair of any property*
 - ii) *groundworks or excavation at the same Premises*



Buildings are defined as follows:

Buildings of the Premises specified in the Schedule including:

- a) landlords' fixtures and fittings*
- b) outbuildings, extensions, annexes, gangways, canopies, fixed signs, temporary buildings, conveniences, lamp posts and street furniture*
- c) walls, gates and fences*
- d) drains, sewers, piping, ducting, cables, wires, aerials, satellite dishes and associated control gear and accessories on the Premises and extending to the public mains but only to the extent of the Insured's responsibility*
- e) yards, car parks, roads, pavements, forecourts and similar surfaces all constructed of solid materials*
- f) tenants' improvements if the Insured are responsible and property comprising fixtures and fittings (but excluding movable contents) formerly the property of tenants but relinquished to the Insured at the time of the surrender of the lease*
- g) Landlords' Contents as defined below up to a limit of £25,000 unless they are insured by item 2 on the Schedule.*

1. Detail the initial key enquiries you should make and outline the main points you would convey to Insurers in a preliminary report.

(10 Marks)

2. A structural engineer's report is obtained which indicates that the damage to the retaining wall has arisen as a combination of a build-up of water behind the wall and some localised subsidence. There is no provision for drainage through the wall and the wall is found to be constructed with 215 mm concrete blocks.

Based on this report, are you likely to consider a valid claim under the subsidence, heave or landslip sections of the policy based on the exclusion applicable to the subsidence section? Explain your decision. Is there any basis for considering the claim also (or instead of) under any other section of the policy? Include case law if appropriate.

(8 Marks)

3. Explain what you should do if you discovered in the course of the initial site inspection that there was actually damage to the wall of the office block/warehouse and the enquiries reveal that the foundations were on piled foundations. What investigations should you make to determine cause?

(8 Marks)



4. If liability is accepted, explain the various options on how the claim might proceed and how in these circumstances the loss might be practically adjusted. Include the basis for reserving and the options for the type of repairs that might be considered.

(8 Marks)

5. The engineering evidence suggests that the damage to the garage and extension was caused by settlement. Outline your advice to Insurers, explaining the difference between settlement and subsidence. Quote case law as appropriate.

(6 Marks)

40 MARKS