



Society of
Underwriting
Professionals
Standards, Professionalism, Trust.

Good Practice Guide

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Subsidence for Underwriting Professionals

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This paper is in response to members' requests to provide a summary of good practice within one source document and is based upon the Society of Underwriting Professionals' understanding of the regulator's rules and current stance. Whilst a summary, it is not intended to be exhaustive and should not be relied upon at the exclusion of other sources of information.

Foreword



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Looking after a property portfolio is tricky business with a huge mix of claim types; from the short tail spills that cause us to consider the moral hazard of the coverage we offer, to the longer tail significant property damage that nature sends our way. In a market which has this mix it's often easy to get drawn to the coolest new thing, whether that be a piece of data that helps us discriminate between risks accurately or the relative ratio of inflation within the changing risk mix we see year on year.

There's plenty to keep an underwriter busy. With escape of water dominating most UK property underwriters' loss counts it's easy to perhaps take our eyes off a peril that, whilst representing 5% of home insurance losses in the UK (2017 source: ABI) and until 2018 not having seen an event year since 2006, has the potential to put many accounts into the red.

The climate is not constant and summer 2018 was consistently 2-3 degrees warmer in the UK than the long-term average, causing many insurers to see an uptick in subsidence losses. More hot summers are expected. This will also have an impact on more properties as well as existing claimants. There will be a greater need to investigate and action cases of subsidence, as well as preventing subsidence from reoccurring.

This Good Practice Guide provides an invaluable resource to refresh the modern underwriters' minds on what is a major issue for customers affected by subsidence.

What causes subsidence?

Subsidence occurs when there is a downward movement of ground underneath a property, causing the foundations to become unstable. The result of this is structural damage such as cracks in the walls, floors and ceilings. It is an issue known to increase when there are long spells of dry and hot weather.

The Association of British Insurers (ABI) identify the main causes of subsidence as:

- Soil type – Clay soils in particular are vulnerable because they shrink, crack and shift during hot, dry weather depending on their water content.
- Trees and shrubs – Where clay soils are present, vegetation can be an issue if they are close to your foundations as some species absorb a lot more water, and so can dry the soil out.
- Local mining activity – Old mines and former quarry or pit sites can cause instability if the fill-in material collapses.
- Leaking drains and water mains can wash away or soften soil. Sandy, gravelly soils are the most vulnerable to washing away.

Other reasons why a properties foundation can move include:

- Heave – When the ground beneath a building moves upwards.
- Landslip/Landslide – When the ground beneath a building moves down a slope, taking the property with it.

Subsidence claims usually occur in the South East of England where there is a clay belt. However, the rise of long and dry summers have contributed to the rise of subsidence-related claims in recent years.

Identifying subsidence

A customer will usually identify if subsidence has occurred in their home if they spot sudden large cracks in the walls or ceiling, usually after a long period of dry weather. The ABI reveal that tell-tale signs of subsidence include:

- **diagonal cracks, and wider at the top than at the bottom**
- **cracks thicker than a 10 pence coin**
- **cracks found around doors and windows**
- **doors and windows sticking for no obvious reason**
- **wallpaper ripping or crinkling not caused by damp**

Cracks can also occur due to changes in temperature and humidity, or if a new build/extension is still settling under its own weight. Therefore, it needs to be carefully determined whether damage to property is caused from subsidence or by other means. This is particularly important as general wear and tear of buildings and poor workmanship is generally excluded from most policy wordings.

Covering subsidence

Subsidence was first added to UK home insurance policies during the 1970s. This was in reaction to the subsidence surge in 1976, where coverage was previously only available as an optional extra peril. Since then there have been two more major subsidence surges, occurring in 2003 and 2018. During this time subsidence has become offered as a standard peril on most domestic properties (and now included on some commercial properties).

Homeowners, however, may find it difficult or expensive to get property insurance after making a subsidence claim. It is expected that the cost of premiums will increase and the customer may now be subject to different terms and conditions in their insurance policy. In certain cases it may no longer be possible to provide continuation of cover. If selling the property, some insurers may be able to continue insuring the property for the new owners. However all new homeowners are recommended to survey the property before making a decision.

If the customer was aware of subsidence when they took out the new policy but didn't disclose it, the current insurer may still be able to void the policy on grounds of material non-disclosure.

Underwriting subsidence risks

To be able to provide the most accurate and comprehensive type of coverage, the property in question should be surveyed, identifying any key issues or risk areas. The more detailed the report, the more relevant the policy wording will be. The most helpful documents for an underwriter include:

- a structural engineer's report
- a survey of completion (following underpinning)
- a contractor's guarantee (following underpinning)

These documents will detail any structural issues, proposals for further investigations, estimates for potential work and any monitoring that has taken place. This will then give the underwriter a clear idea about potential risks and how to action them.

As well as subsidence, there may be other factors that cause property damage. They include:

- sulphate damage
- cracking
- thermal movement
- lintel failure
- poor design, materials or workmanships
- wear and tear

The latter two are generally excluded from most insurance policies, however the rest can be insurable perils if referred to specifically in a policy wording.

Generally speaking, if damage to a property is superficial then the cost of repairs would be the expense of having minor cracks filled in and painted over. More serious cracks that have an impact on the structure may result in walls needing to be re-pointed and repaired with metal fixings. In extreme cases the house may need to be underpinned, where either existing foundations are strengthened or new foundations are inserted underneath the property, preventing or limiting any further movement. While this used to be standard practice, underpinning is now only used as a last resort. If the damage to the property is so severe that it is uninhabitable, a comprehensive insurance policy should also cover the cost of alternative accommodation while repairs are being carried out.

Investigating subsidence claims

If a genuine case of subsidence is suspected an investigation will need to take place to detail the extent of the damage, as well as its source. Types of investigation that could take place include:

- **Trial holes** Holes dug to expose the foundations under a building in the area of suspected subsidence.
- **CCTV** Camera investigation of the drainage system to check for blockages caused by a fractured drain or intrusion of tree roots and vegetation.
- **Crack monitoring** Monitoring the structure of a property to establish:
 - Extent of future movement
 - Rate of future movement
 - Any seasonal cyclical movement
 - Cause of the movement
 - If any substructure work (underpinning) work is required
- **Level monitoring** Level readings to determine if there is any continuing movement of the building and how it occurred.
- **Soil samples** Identification of the type of soil.
- **Vegetation review/management** Identification of any trees affecting the area and if they can be removed.

Policy wordings will need to clarify what type of investigation is covered, as well as if there are any limits on what can be covered. Once the cause and scale of the subsidence has been established, the insurance policy can be activated and steps can be made towards repairs.

Good practice

1. Treat each policy wording individually.

Subsidence can occur as part of an isolated event or en masse during a surge event. Because of the variety of causes, there is no one size fits all approach that applies to subsidence. There will be incidents where a claim can be handled quickly as the damage caused is localised with minimal repair work needed. However some may require a more in-depth investigation, requiring numerous tests and lengthy repairs. This is particularly important with the increase of different types of property or extension built on land with varying types of foundation. If the surveys and reports are suitable thorough, this should help identify how much at risk the insured property is and what type of coverage is appropriate.

2. Recognise other causes of damage.

Subsidence not be or only one of the reasons for damage caused. Try to address these other risks in the policy wording. Home insurance generally covers the cost of repairing the loss or damage caused, sometimes up to a certain amount. However, the cost of preventing further subsidence is not always included. Some building may still be moving when a claim is first made, meaning costs may need to be covered before an investigation can take place.

Sometimes a third party is involved if the subsidence is caused by the tree on a neighbour's or public land. Approval will need to be sought if the tree needs to be removed, which can delay removals as well as incurring additional costs that need to be met. The more detail you can obtain about the property and the site it's on will mean you will have a better idea as to what the potential risks are and cover accordingly.

3. Underpinning.

Underpinning is generally used as a last resort due to the expensive and intensive nature of repair. Even so, this method should still be considered, though not treated as standard. Most property damage policies only cover the damage caused by subsidence. Underpinning is sometimes used to stabilise the property. As this is preventative action, it would therefore not be covered as repair work. Properties that are already undepinned are considered a risk due as they indicate that the structure of the building is unstable or has imperfect foundations. Underpinning a property should ideally resolve these problems but it doesn't guarantee they won't reoccur or prevent subsidence from a different cause. Extra structural work may also be required in some cases. A thorough assessment should take place so that coverage can be priced appropriately rather than assuming everything will have to be replaced.

4. Identify how to cover previous claimants.

If a customer has already fallen victim to subsidence, it's unlikely they'll get another similar policy. Instead of rejecting them outright, work with the information and risks known to work out what sort of coverage is possible. It may be the case that higher premiums or excess is required, or that strict limits may be put in place. If this is the case be clear about the reasons and price them fairly. Previous claimants will hopefully have taken precautions to prevent further cases of subsidence. If these are done effectively then this should be factored into the pricing of a new or renewed policy.

Conclusion

With a recent surge event still fresh in the minds of many, subsidence continues to frustrate customers and insurers alike. Now that subsidence is affecting more homeowners, rather than just those living in clay belt areas, more home insurance policies need to be clearer about what is covered regarding subsidence.

With temperatures rising in the UK, more hot summers are expected. This will also have an impact on more properties as well as existing claimants. There will be a greater need to investigate and action cases of subsidence, as well as preventing subsidence from reoccurring. Not all subsidence cases can be prevented however. But underwriters should be mindful that they are partnering with a broker who is recommending preventative measures to their customers. The same applies with claims handlers who should offer emotional support in times of stress, as well as actioning a claim efficiently.

While underwriters can only work with the information shared with them, subsidence coverage should consider the risk areas that are particular to the client as well as considering other types of damage that may also affect the property.

Appendix – Primary source material

Association of British Insurers

- **How subsidence can affect your home – what you need to know**, <https://www.abi.org.uk/products-and-issues/choosing-the-right-insurance/home-insurance/subsidence/how-subsidence-can-affect-your-home/>
- **Subsidence**, <https://www.abi.org.uk/products-and-issues/choosing-the-right-insurance/home-insurance/subsidence/>

British Insurance Brokers' Association

- **Subsidence**, <https://www.biba.org.uk/insurance-guides/home-insurance-guides/subsidence/>

Financial Ombudsman Service

- **Subsidence and other types of ground movement**, <https://www.financial-ombudsman.org.uk/businesses/complaints-deal/insurance/home-buildings-insurance/subsidence-types-ground-movement>

