

Sustainability Committee

SC(3)-12-09 (p2): 24 June 2009

National assembly for Wales, Sustainability Committee Enquiry into Flooding.

Submission from the Association of British Insurers

The ABI is the voice of the insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in government and in public debate on insurance, savings, and investment matters.

The ABI wants to ensure that flood risk is managed effectively and that as many people and businesses as possible are able to access affordable insurance to protect them from the financial costs of flooding. We are currently in the final stages of discussing a Statement of Principles for flood insurance with the Welsh Assembly Government under which insurers would commit to continuing to provide flood insurance to the vast majority of customers until 2013. In return the Welsh Assembly Government would recognise the need to give an over-arching commitment during this period to ensure that the competitive market will be able to deliver affordable insurance for the vast majority of customers by 2013. As part of this we are seeking agreement that measures to achieve the following will be taken by the Welsh Assembly Government, working together with insurers:

- improve our understanding of flood risk through assessing both the probability and consequences of flooding from all sources including surface water;
- put in place a long-term strategy to reduce flood risk; set out the Welsh Assembly Government's short, medium and long term strategic flood prevention aims; assess funding needs; and ensure effective and prioritised allocation of resources and delivery over the medium and long term in line with future Welsh Assembly Government spending proposals;
- ensure that the planning system prevents inappropriate development in flood risk areas, and that any essential new development in high flood-risk areas is flood resistant and/or resilient;
- raise awareness in areas where flood risks are significant, encourage actions to mitigate and minimise the risks and costs of being flooded; and provide information about how to obtain flood insurance; and
- promote access to insurance for low-income households.

The ABI recently put forward proposals for the Flood and Water Management Bill. Although these proposals are framed in the context of the UK Government, they are equally relevant for Wales, with modification for the different administrative arrangements. We are currently examining the draft Flood and Water Management Bill and will respond fully on this to the Welsh Assembly Government in due course. This Bill is a vital step towards achieving the above ambition. Without it flood insurance may become harder to access and more expensive.

Flood Risk Assessment

It is proposed that the Flood and Water Management Bill will formalise the flood risk assessment process by transposing the EU Floods Directive. Under our proposed agreement on flood insurance we recognise the need to prepare Flood Hazard and Flood Risk Maps covering flood risk from all sources, including from surface water, as required under the EU Directive by 2013, with appropriate arrangements for communicating this effectively to the public and insurers in a convenient administrative format that provides as accurate and specific data as possible whilst recognising the appropriate degree of uncertainty that attaches to the data.

It is vital that this improved information on flood risk is available to insurers to allow them to continue to provide insurance for as many properties as possible within a competitive market on terms that reflect the risk of flooding as accurately as possible.

Long-Term Strategy

As part of the proposed agreement with insurers, the Welsh Assembly Government would set out a long-term investment strategy aimed at reducing river and coastal flood risk. This strategy would set out Welsh Assembly Government's short, medium and long-term strategic flood prevention aims; assess funding needs and ensure effective and prioritised allocation of resources and delivery over the medium and long term.

Through appropriate changes in legislation introduced by the proposed Flood and Water Management Bill, which will transpose the EU Floods Directive, the Welsh Assembly Government will establish how flooding from surface water will be better managed in the future.

It will clarify roles and responsibilities for those bodies with interest in this matter, will confirm funding mechanisms and will establish an appropriate regulatory environment.

As part of a this long term strategy to manage flood risk from all sources we expect the Welsh Assembly Government, in consultation with stakeholders, to establish a set of outcome measures, aimed at reflecting an effective flood and coastal erosion risk management

service across Wales. These outcome measures should encourage implementation of a broad range of management measures including measures for the protection of residential and commercial property.

We further propose that the Welsh Assembly Government should set legally binding targets on numbers of homes at different levels of flood risk by e.g. 2015, 2025, and 2050.

Planning System

We have proposed to the Welsh Assembly Government that, following introduction of the Flood and Water Management Bill, they should review the Planning Policy to establish if any policy reforms are needed to prevent inappropriate developments in flood risk areas.

We are encouraged that the latest Environment Agency report on Development and Flood Risk (2007/08) shows an upward trend in the proportion of final outcomes in line with Agency advice. However more needs to be done to ensure that Flood Consequence Assessments are carried out for all relevant applications and final outcomes are always reported to the Environment Agency.

The existing agreement between insurers and the Welsh Assembly Government is not intended to cover new developments and we have proposed clarifying this in the revised agreement by stating that the commitment does not apply to any new property built after 1 January 2009. The ABI encourages developers and customers purchasing a property in a new development to ensure that it is insurable for flooding and we have published guidance to help developers and planning authorities consider how to ensure new developments are insurable in the future.

This recommends

- following National Planning Policy Statements
- providing buyers with information on climate risks and how they are managed
- developing publicly available standards or kitemarks that certify enhanced resilience to climate change impacts.

Raising Awareness of significant flood risk; encouraging action by property owners and promoting wider uptake of insurance, particularly by low-income households.

We consider it very important that the best information available on flood risk from all sources is effectively communicated to members of the public, whilst recognising the appropriate degree of uncertainty that attaches to the data.

UK Government research has shown that it is only cost-effective to undertake extensive changes to homes to make them more resilient to flooding if the property is likely to flood more frequently than once every 25 years (4% annual risk of flooding) or if the property needs extensive renovation or repair anyway, such as following major flood damage, and is likely to flood once every 50 years (2% annual risk of flooding).

The ABI conducted its own research using real flood claims from the summer of 2007 and concluded that it is on average 40% more expensive to repair homes using resilience measures, ranging from 15% to 70% more expensive depending on the details of the home. However, while our research suggests it is more expensive than previously thought, the benefits are also likely to be greater than previously assessed as the impact on asset values of regular significant flood damage was not previously considered. A full summary of our research can be found online.

The following barriers must be overcome to encourage property owners to protect their own homes. Property owners need

- to understand that their property is at a high risk of flooding
- to be informed that they are unlikely to benefit from community flood defences
- professional advice on what can be done to make their property resistant and/or resilient to flood damage.

The ABI intends to work with the National Flood Forum to prepare a clear factsheet that insurers and loss adjusters can use when talking to customers who have been flooded, so that they can make an informed choice about whether to build in flood resilience as their home is repaired. This will include advice that building in resilience features will make it easier to obtain insurance in future and help secure better terms.

We also propose that

the Environment Agency and Local Authorities work together to liaise with all homes and businesses that it does not expect to protect below significant flood risk levels within 25 years to ensure that they are aware of the significant flood risk and the options open to them

the Welsh Assembly Government empowers local authorities to provide and coordinate free property-level flood risk surveys, and provide support for property owners willing to make their property more resistant and/or resilient to flooding

the Welsh Assembly Government works with the Environment Agency and local authorities to deliver local solutions to homes and businesses that it is not practical to defend from severe flooding or coastal erosion.

On promoting wider uptake of flood insurance, the ABI welcomes support from the Welsh Assembly Government in promoting insurance with rent schemes for tenants in social housing. A regional workshop is being held in Cardiff on 7th July. This will provide

delegates with a key opportunity to discuss different approaches to running such schemes. Representatives from local authorities, housing associations and other stakeholders have been invited.

Responding to flood events

The major floods of the summer 2007 demonstrated the value and importance of insurance. Insured damage is estimated at £3 billion. Insurers handled approximately 185,000 claims - 135,000 relating to homes, 35,000 to commercial properties and 20,000 to vehicles. The floods were extraordinary and they required an extraordinary response from insurers. Loss adjusters were mobilised from all over the UK and abroad and were on the ground within 24 hours of the floods happening. They quickly agreed short-term actions, like making interim payments sometimes directly into customers' bank accounts. Several insurers arranged for customers to have a single point of contact during the claims process.

Following the floods, the UK Government commissioned the Pitt report. The main thrust of the conclusions in the Pitt Report set out proposals for reducing and managing flood risk in future and are broadly in line with the ABI's policy positions as incorporated in the above and in our proposals for the Flood and Water Management Bill.

Several other recommendations involve the insurance industry more directly. These Included:

Recommendation 29 calls for Government and the insurance industry to deliver a public education programme setting out the benefits of insurance. We have already published advice to businesses and to the public on how to assess the amount insured required for Contents insurance.

Recommendation 30 is for Government to update its guidance on insurance with rent schemes which is referred to above.

Recommendation 31 calls on the insurance industry to produce guidance for flooding events covering the reasonable expectations of customers. We have produced step-by-step guidance which explains the claims process to flooded customers.

Recommendation 73 is that Government and the ABI should work together to explore technology that can speed up the drying process. The Communities and Local Government departments is leading on this in Westminster and we are happy to be involved.

Association of British Insurers

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See <http://www.abi.org.uk/Members/circulars/viewAttachment.asp?EID=22777&DID=17677>

See <http://www.abi.org.uk/BookShop/ResearchReports/Climate%20Adaptation%20Guide%20Final.pdf>

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