



Association of British Insurers

# Arthur Philip ABI

Planning for Flooding  
Climate Change and Resilience



# Introduction

How insurance works

The increasing cost of weather related events

ABI Agreement on flood insurance

Developing a Long Term Strategy for reducing flood risk

Resilient reinstatement of existing properties

Planning regulations and new developments

Developing resilient communities.



# How insurance works

- Insurers pool risk but price each risk as accurately as possible
- The Home insurance market is highly competitive and increasingly price-sensitive
- Successful insurers price risk more accurately than others
- If insurers under-price risk, they lose money
- If they over-price risk, competitors under-cut them and they lose business
- In a price sensitive market, premiums for those at low risk can't carry any extra to subsidise those at high risk



# Household Market in the UK

- Market household premium income was £5.7 bn in 2008 resulting in an underwriting profit of just £208m



# The cost of flooding

**2007 floods** total insurance claims cost: estimated to be £3bn

Total number of claims: around 185,000

Total domestic claims: around 130,000 (50,000 major)

17, 000 insured households went into alternative accommodation

Total commercial claims: around 35,000

Total motor claims: around 20,000



**2009 Cumbrian floods (January estimate)** total insurance claims costs of the floods and storms between 19 and 25

November: around £200m (property and motor)

4,000 are flood claims and 32,000 storm claims

Approximately 300 households have been re-housed in alternative accommodation

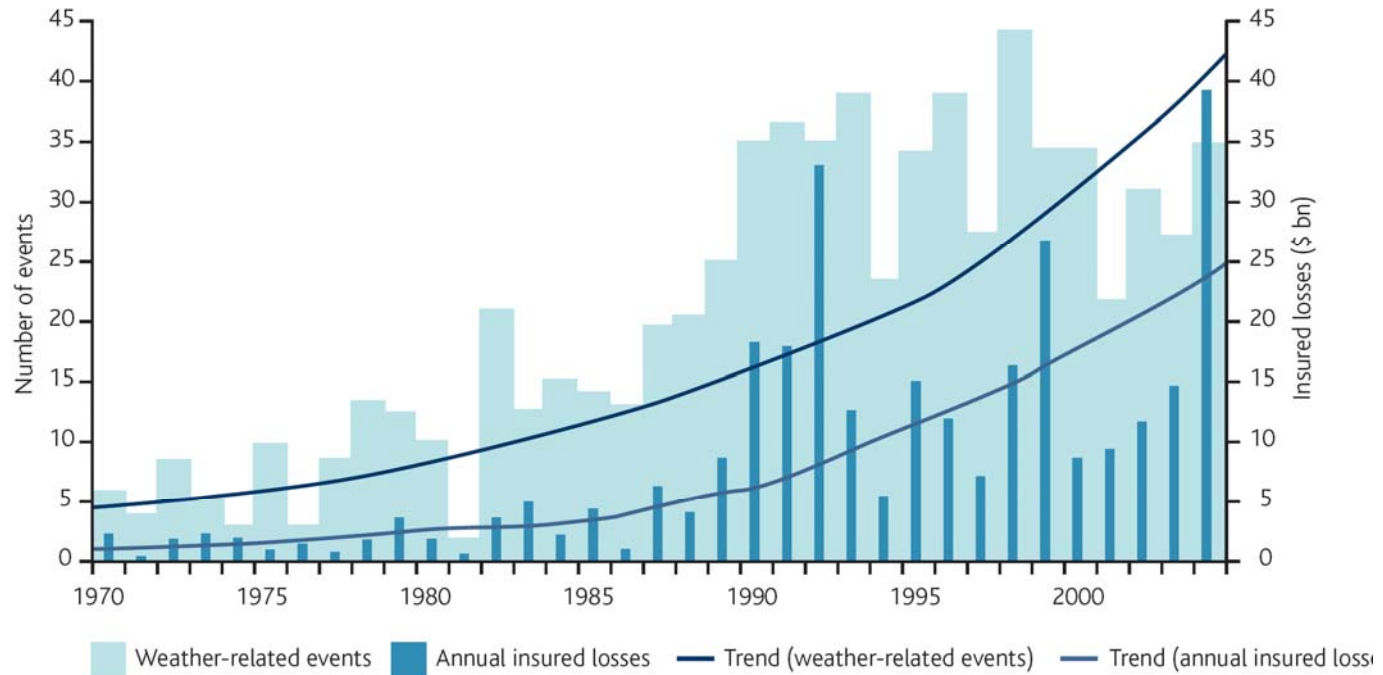
Around 60% of the cost of the claims is from businesses

Household flood claims often cost tens of thousands of pounds





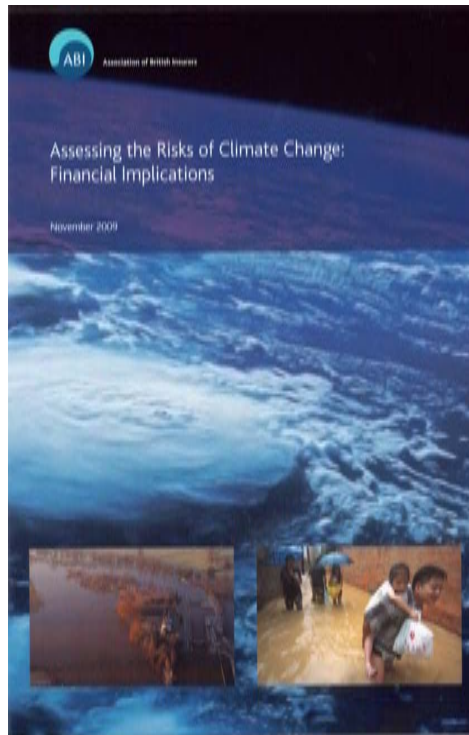
# Trends in weather related insured losses



Source: Sigma Database, Swiss Re.



# Temperature changes have big impact on flood...



Temperature Change	Increase in average annual loss (AAL)	Increase in loss from 1-in-100 year events	Increase in loss from 1-in-200 year events	Theoretical Impact on Insurance Pricing* (based on AAL)	Additional minimum capital required for 1-in-200 year flood*
2°C	8% £47m	18% £769m	14% £832m	16%	£1,065m
4°C	14% £80m	30% £1240m	32% £1920m	27%	£2,457m
6°C	25% £138m	56% £2353m	73% £4346m	47%	£5,565m



## ABI Agreement on flood insurance - 2008

Insurers agree until 30<sup>th</sup> June 2013 to

- Provide flood cover as standard feature under normal competitive market for those at less than 1.3% annual probability of flooding (1-in-75 yr)
- Continue cover to existing policyholders in areas where defences will be in place within 5 years that reduce risk to less than 1.3% annual probability
- Use best efforts, on a case-by-case basis, with existing policyholders where no defences planned
- Agreement doesn't apply to new developments after 1<sup>st</sup> Jan 2009.



# ABI Agreement on flood insurance - 2008

Government agree to

- Improve data available to assess flood risk
- Put in place a long term strategy to reduce flood risk
- Establish how flooding from surface water will be better managed in the future
- Prevent inappropriate development in flood risk areas and promote increased resilience.



# ABI Agreement on flood insurance - progress

- ABI published guidance on insurance issues for new developments
- EA published
  - a more accurate National Flood Risk Assessment for river and coastal flooding in England and Wales
  - their first detailed assessment of flood risk in England and in Wales
  - their Long Term Investment Strategy for England and Wales.
- The Flood and Water Management Bill is being introduced to improve management of surface water flood risk
- EA will publish the first surface water flood risk map for England and Wales to the public and insurers later this year



# Developing a Long Term Strategy for **Reducing Flood Risk**

The EA LTIS for England says

- Money spent on river and coastal defences needs to double over 25 years to maintain flood risk as it is today

The EA LTIS for Wales says

- Money spent on river and coastal defences needs to triple over 25 years to maintain flood risk as it is today

The EA LTIS for Wales also says

- Money spent on river and coastal flood defences needs to quadruple over 25 years to make meaningful progress in reducing flood risk in the face of climate change.

**This is the relevant option because standing still is not good enough**

- **The alternative is paying for insurance based on average annual damages that are up to 6 times the cost of fixing the problem**
- **How flood defences are to be financed is a separate and very significant challenge**



# Delivery under EU Floods Directive

<b>Type of Flooding</b>	<b>Preliminary Flood Risk Assessments Dec 2011</b>	<b>Flood Hazard and Risk Maps Dec 2013</b>	<b>Flood Risk Management Plans Dec 2015</b>
<b>River</b>	-	EA based on NaFRA	EA based on CFMPs
<b>Coastal</b>	-	EA based on NaFRA	EA based on SMPs
<b>Surface Water, Sewer and Groundwater</b>	LAs based on level 1 SFRA/SFCAs	LAs based on level 2 SFRA/SFCAs	LAs based on SWMPs



# Flood Resistant and Resilient Measures for existing properties.

- ABI, with the NFF, EA and CILA have just launched a new consumer guide on flood resistant measures and on resilient repair after a flood.
- The guide sets out to answer some frequently asked questions about resilient repair and to act as a signpost for further advice and information on the issue
- ABI encourages flooded customers to discuss the options for resilient repair with their insurers and loss adjusters



# ABI Research on Resilient Reinstatement after a flood

- On average this increases claims costs for flood damaged homes by 40% - but with very significant variations.
- Only 30% of total costs relates to the building structure
- 70% relates to matters of personal choice – e.g. fitted kitchens, skirting boards, architraves, internal doors, wall and floor finishes.
- Insurers pay for cost neutral resilience – e.g.
  - If re-wiring offer to place sockets half way up wall
  - If re-plastering use gypsum, water resistant plaster
  - If replacing timber floors with shallow void, offer to fill and replace with concrete
- Beyond this insurers want to encourage more resilience but it remains a difficult personal decision.



# The Flood Risk Management Hierarchy - putting resilience measures within context

Community level protections, where they can be cost-justified

- Permanent measures
- Demountable defences or temporary defences

Property level measures

- Flood resistant measures – keeping the water out – only possible for flood depths up to 1 metre depending on property construction
- Flood resilient measures – limiting the damage and time taken to recover if the water can't be kept out.

Property level resilience is the least attractive option but for some existing properties it may be the only option – and it can help.



# New Developments and Flood Risk

The aim with Planning Regulations throughout the UK is to ensure that new developments are safe and if possible reduce, certainly don't increase, overall flood risk.

How well is this achieved?

- Is flood risk from surface water well enough understood – is this fully assessed in SFCAs to allow the EA to advise on this?
- Can Water Co's always confirm that new developments can be effectively drained without compromising their capacity to effectively drain other properties?
- Are sustainable drainage systems always used for storm water, where possible, and are there clear responsibilities for their long term maintenance?



# ABI Guidance on Insurance Issues for New Development

Published in January 2009, this guide recommends

- Following national planning policy statements
- Providing buyers with information on climate risks (particularly flooding) and how they are managed
- Developing standards or kitemarks that certify enhanced resilience to climate change impacts

It includes an Appendix giving information that insurers would value for a new development – emphasising the need to design the development to minimise the overall impact of a flood event on new and existing property.

ABI would like to see development of a template for communication of flood risk, and how it is managed, to new property owners.



## Designing resilience within new developments.

Yorkshire Forward (a RDA) are carrying out research on Flood Resilient Development at present.

Understanding flood risk, including that from surface water and taking account of this in spatial planning at a regional, local and site level is paramount.

Adopting a risk based approach then needs to complement this spatial approach to ensure that the residual flood risk is acceptable taking account of all sources of flooding.

Building properties that flood water is expected to enter, but which are resilient, is the least preferred option and will only ever be satisfactory for restricted use.

A development can only be resilient if the wider community and its infrastructure are also resilient.



# Any questions?

