



Association of British Insurers

# FIGHTING FLOOD RISK TOGETHER

November 2010



For more information, contact:

Association of British Insurers  
51 Gresham Street  
London EC2V 7HQ  
020 7600 3333

[www.abi.org.uk](http://www.abi.org.uk)

## Executive Summary

### The Scale of the Flooding Problem:

- The Environment Agency estimates that 5.2 million homes in England alone are at risk of flooding – that's one in six – and 185,000 businesses.
- Many properties are threatened by surface water flooding, as well as flooding from rivers and the sea.
- The 2009 floods in Cumbria demonstrated how devastating flooding can be not just to homes, but also to businesses.
- The Environment Agency has estimated that if investment in flood defences stays constant there will be 350,000 more properties in England at significant flood risk by 2035.

### The insurance industry covers much of this risk. It paid out:

- £3bn after the 2007 floods.
- £174m after the 2009 Cumbrian floods.
- An average of £20–40k per household flood claim, and £60k per business claim.
- The levels of flood cover provided by the UK insurance industry today are almost unparalleled in Europe.

### Priorities for the future:

- Effective use of flood defence spending to deliver the best possible outcomes on the ground.
- World-class and up-to-date flood risk data available for use by insurers and the public.
- Research into the potential for implementing resistance and resilience measures more widely.
- A practical and sustainable solution to replace the Statement of Principles in 2013.

# 1. The Problem of Flood Risk

Flooding is the main natural risk facing the UK, and it is predicted that climate change will lead to an increase in the frequency and severity of major floods in the future.

Climate change is not the only factor. Land use patterns are changing and urbanisation is increasing the percentage of the country which is covered in impermeable concrete and tarmac. As this disruption to the natural water cycle gathers pace, it is no surprise to see an increase in groundwater and surface water flooding, often in areas nowhere near a river or coastline. Of the 5.2 million homes in England at risk of flooding, 2.8 million are at risk due to surface water alone<sup>1</sup>.

Flood risk today is therefore greater than ever before. Insurers have a key role to play in helping society manage this risk, through the provision of cover for flood damage. The UK is one of the very few countries in the world where flood insurance remains an integral part of property insurance. The ABI is working with our members to ensure that, should the worst happen again tomorrow, we are ready to provide the best possible response.

But fighting the risk of flooding is not the responsibility of insurers alone – we are an important part of the solution, but not the whole answer. While insurers are experts at managing the financial risks of flooding, the Government and others have a responsibility for tackling the risk head on, by investing in flood defences and flood risk reduction and by ensuring that development on flood plains is undertaken responsibly. And individual property owners need to take action to protect their own properties and businesses. The responsibility for fighting flood risk must be shared between consumers, insurers, Government and other stakeholders, to keep people, their homes and their livelihoods safe.

<sup>1</sup>Environment Agency (2009): Flood and coastal risk management in England – a long term investment strategy  
<http://www.environment-agency.gov.uk/research/library/publications/108673.aspx>

## 2. The Role of Insurers

Since 2000 the ABI and the Government have had an agreement known as the Statement of Principles on the Provision of Flood Insurance. The Statement, which was intended as a temporary measure, has been revised over time, most recently in 2008, and versions have been agreed with the devolved administrations. The agreement expires in England, Scotland, Wales and Northern Ireland, in mid-2013.

The Statement of Principles commits insurers to make flood insurance as widely available as possible until 2013, and as a result the industry has been providing cover for the last decade to some otherwise uninsurable properties. In return, the Government is committed to ensuring that flood risk is appropriately managed and that long-term flood risk management commitments are made during this period, to enable the competitive market to deliver affordable flood insurance for the vast majority of customers once the Statement of Principles ends.

It is important to recognise that the Statement of Principles provides that premiums charged and policy terms can reflect the level of risk. ABI members are committed to the Statement of Principles, and most insurers provide insurance cover even beyond the requirements of the agreement, which does not limit the premiums that may be charged. The levels of flood cover provided by the UK insurance industry today are almost unparalleled in Europe.

"The levels of flood cover provided by the UK insurance industry are almost unparalleled in Europe."

### 3. The Role of Government

The Government has a responsibility under the Statement of Principles to reduce flood risk. It can do this by investing in flood defences, and other measures to reduce flood risk, ensuring that the planning system does not allow unwise development on flood plains to take place.

Appropriate investment in flood defences is vital. The Environment Agency has calculated that in order to keep up with the increasing flood risk, spending in England and Wales would need to double over 25 years, from £570m per year in 2009 to £1040m per year by 2035, in real terms. This is just to maintain the current number of properties at flood risk. To make progress on significantly reducing flood risk, investment will need to be even higher.

This figure does not include investment in dealing with the risks of surface water flooding, which is now understood to be a significant problem, potentially requiring investment of £150m per year.

The ABI believes that this level of investment is justified, even in tough economic times. According to the Environment Agency's recent reports, flood defence spending can bring an 800% return on investment. In other words, for every £1 spent on flood defences, £8 is saved to the wider economy, through a reduction in the long-term costs of damage from flooding.

What is needed most urgently is a long-term strategy for dealing with the totality of flood risk reduction, in terms of actual outcomes on the ground. This will give insurers the confidence to plan for the future, and enable the private sector, local Government and communities to play their part, alongside Government, in addressing the problem.

"For every £1 spent on flood defences, £8 is saved to the wider economy."

## The Planning System and New Developments

It is vital that there is a robust planning system to ensure that the risk is not increased through unwise developments. In recent years, too many developments have been built in high-risk areas. Buildings built after 1 January 2009 are not covered by the Statement of Principles and may not be insurable at all.

The ABI wants to see the maintenance of a rigorous planning system which takes account of insurability, directs development away from the highest risk areas, discourages building on the flood plain, and where such development is necessary, requires account to be taken of flood risk both to the property itself and nearby properties.

### Local Authority Guidance on Planning

**In 2009 the ABI produced 'Guidance on Insurance Issues for New Developments' – a document designed primarily for use by developers considering building in flood risk areas. The guidance has been well received, and there has been demand from Local Authorities for similar guidance specific to the issues they face when dealing with planning applications in flood risk areas.**

**The ABI is producing a guidance document for Local Authorities on planning, by mid-2011.**

## 4. Beyond the Statement of Principles

The Statement of Principles was put in place as a temporary measure to allow insurance to be offered for properties at significant risk until that risk was managed sufficiently. However, as our understanding of risk has improved in recent years, it has become apparent that flood risk is far greater than previously thought, and is in fact increasing.

The Statement of Principles is problematic because it distorts the insurance market. New entrants to the industry do not have to adhere to the Statement of Principles, and so can avoid offering insurance in areas known to be at higher risk of flooding. With new entrants avoiding particular areas, consumers suffer as they do not enjoy the benefits of a more competitive market. Existing insurers, who are bound to continue offering cover, are left at a considerable commercial disadvantage. This situation restricts the opportunity for a specialist “high flood risk” market to develop, and also serves to reduce the incentives on property owners and local communities to invest in flood risk management.

For these reasons it is now widely accepted that the Statement of Principles cannot be renewed beyond 2013 and that a new way forward is needed. Nevertheless, insurers will continue to honour their commitments under the existing agreement until that time.

## 5. Towards Shared Responsibility for Flood Risk Management

The ABI believes that a way forward to deal with the increasing flood risk in the UK needs to be agreed by all stakeholders. At a Ministerial summit on flooding held in September 2010 it was agreed to take forward shared work in three key areas:

### Risk sharing

It is clear that in the future there needs to be a system in place which shares flood risk between consumers, Government, both central and local, and insurers if we are to continue to offer affordable cover. Exactly what an appropriate risk sharing arrangement would look like is unclear but it is a priority that all stakeholders work together to find a solution which is equitable, practical, and sustainable.

#### Risk Sharing Options: Study by Oxera

**The ABI has commissioned economic consultants Oxera to examine how different risk sharing options could be used to support the private provision of flood insurance in the UK.**

**Oxera are considering a large number of potential alternatives and, based on their own economic analyses, best practice from abroad and a set of key principles agreed by ABI members, will be reporting on their preferred options against these principles in early 2011.**

### Better Data

Flood hazard and flood risk data is critical to the effective management of flood risk. Accurate data is needed to plan appropriate flood defences, to enable insurance companies to price flood risk accurately, and to enable consumers and developers to make informed choices about their investments in flood risk areas. A priority is, therefore, to ensure that flood hazard and flood risk data is kept as accurate and up to date as possible. We also need to investigate how it might be shared fairly between the Environment Agency, insurance companies and other stakeholders for the benefit of all, without compromising the competitive nature of the insurance industry.

### Consumer Experience of Resilience Measures

Encouraging the take-up of resistance and resilience measures, both in new developments and as part of repair after flood events, has been a key flood risk management strategy. However feedback from ABI members suggests that consumers are reluctant to adopt resistance and resilience measures in the aftermath of a flood event. Further research on this topic is vital to inform future policy development.

Despite the rising risk of flooding in the UK, insurers remain determined to continue to make flood insurance widely available and as competitively priced as possible.

## Conclusion

The UK is one of the only countries in the world where flood insurance remains an integral part of property insurance. To enable this to continue we need to ensure that flood risk is kept under control and properly understood. In particular we need:

- Effective use of flood defence spending to deliver the best possible outcomes on the ground.
- World class flood risk data available for use by insurers and the public, and kept up to date.
- A practical and sustainable solution to replace the Statement of Principles by 2013.





**For more information, contact:**

Association of British Insurers  
51 Gresham Street  
London EC2V 7HQ  
020 7600 3333

[www.abi.org.uk](http://www.abi.org.uk)