



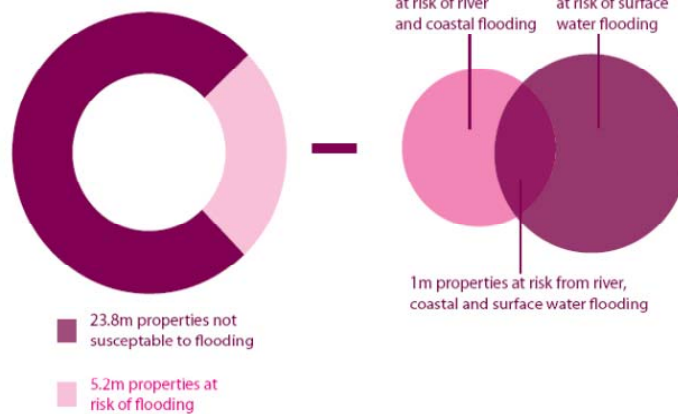
## The Future of Flood Insurance in the UK



Matt Cullen  
Policy Adviser, Flooding, ABI



## The current state of flood risk



EA, 2009



## Climate change and flooding

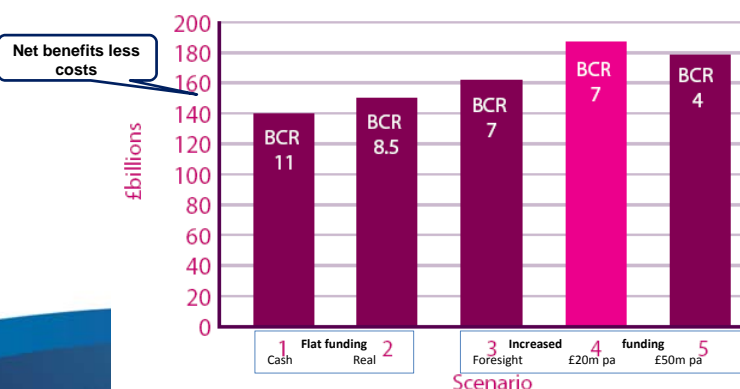
- We expect **sea levels to rise** increasing the risk of coastal flooding.
- The **frequency and severity of rainstorms** will increase, increasing the risk of inland flooding.
- Without investment, climate change would mean 500,000 more properties would be at 'significant' risk of flooding by 2035.

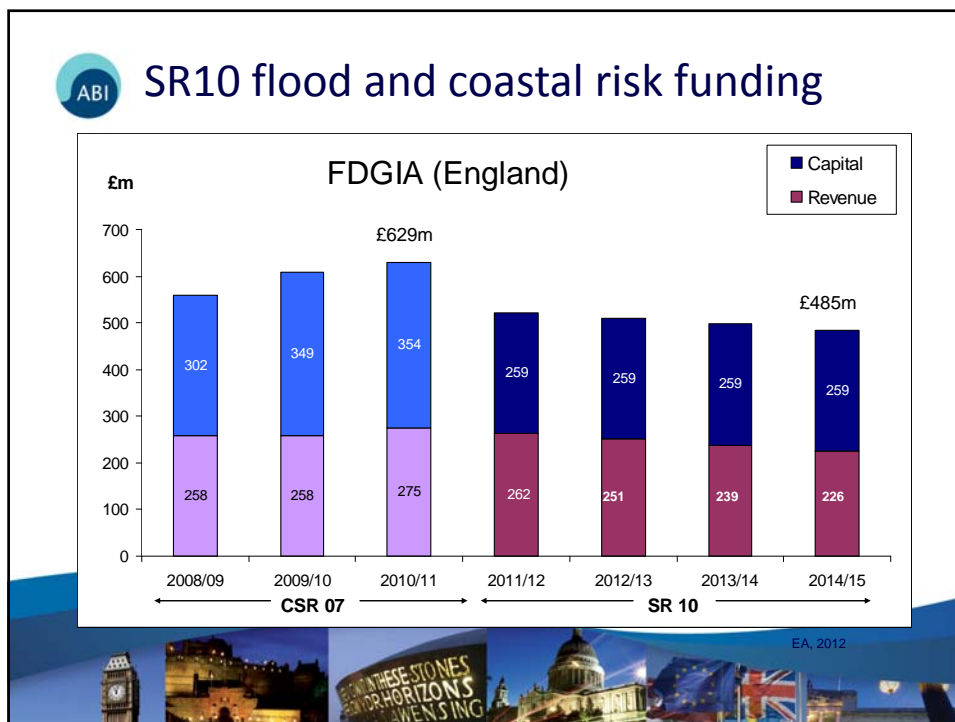
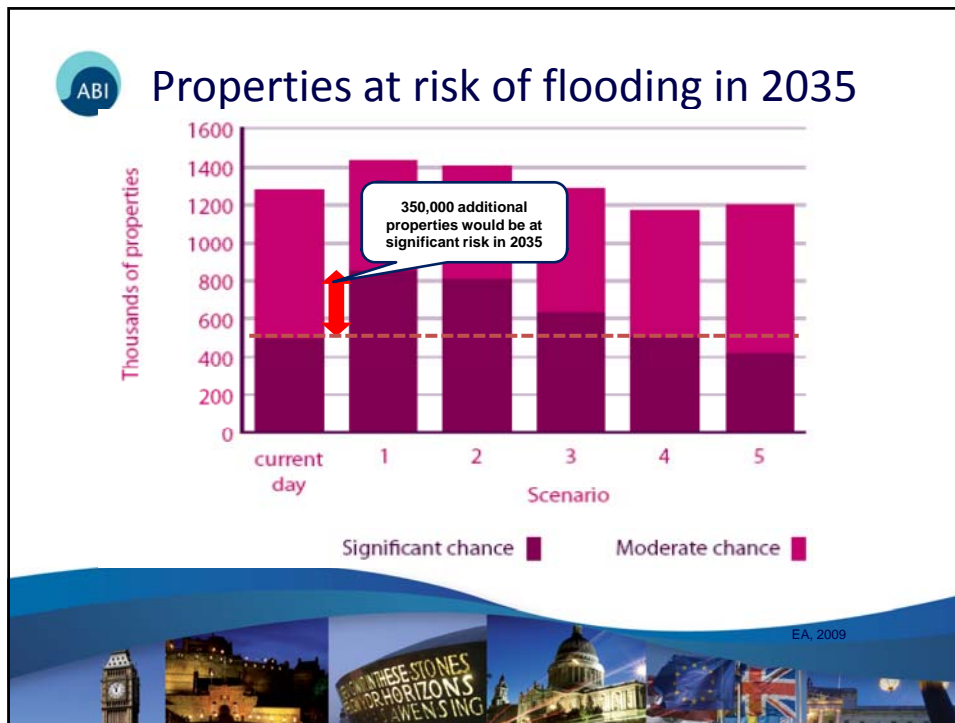


## Benefits of long term investment

(£billions based on 100 year costs and benefits)

■ Most favourable scenario







## Flooding in recent years

### 2007 floods

- Total insurance claims cost: estimated at £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

- Total insurance claims costs of around £200m (property and motor)
- >4,000 flood claims



### 2012 floods

- £594m







## Financial costs of future flooding

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

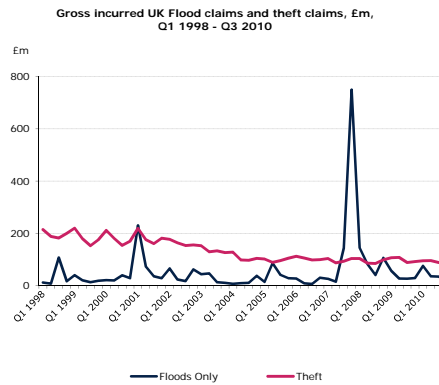
ABI, 2009





## Why flood risk is problematic

- Highly specific geographical variation in risk = highly differentiated premiums
- Flood events are 'spiky', with intermittent large losses:
  - Volatility in profit and loss;
  - Insurers' capital requirements;
  - Trends are not easy to verify using claim data;
  - Claims handling & emergency response.



## Flood insurance

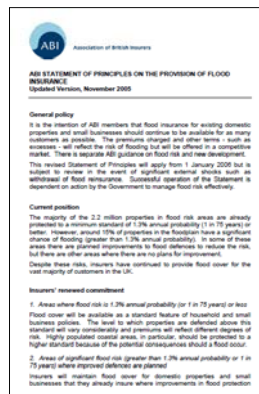
- Flood Insurance is a standard component of buildings and contents insurance policies in the UK.
- This includes river flooding, coastal flooding, and surface water flooding.
- Different approaches taken throughout the world.





## The Statement of Principles

- An agreement with Government, in place since 2000 – the ‘Statement of Principles’:
  - Insurers continue to offer cover (i.e. offer renewals)
  - Government manages flood risk effectively
- Applies to both household and SME policies, for properties built before 2009. Larger commercial properties not covered.
- Separate (but virtually identical) agreements for England, Scotland, Wales and Northern Ireland.
- All four expire on 30th June 2013, and will not be renewed.

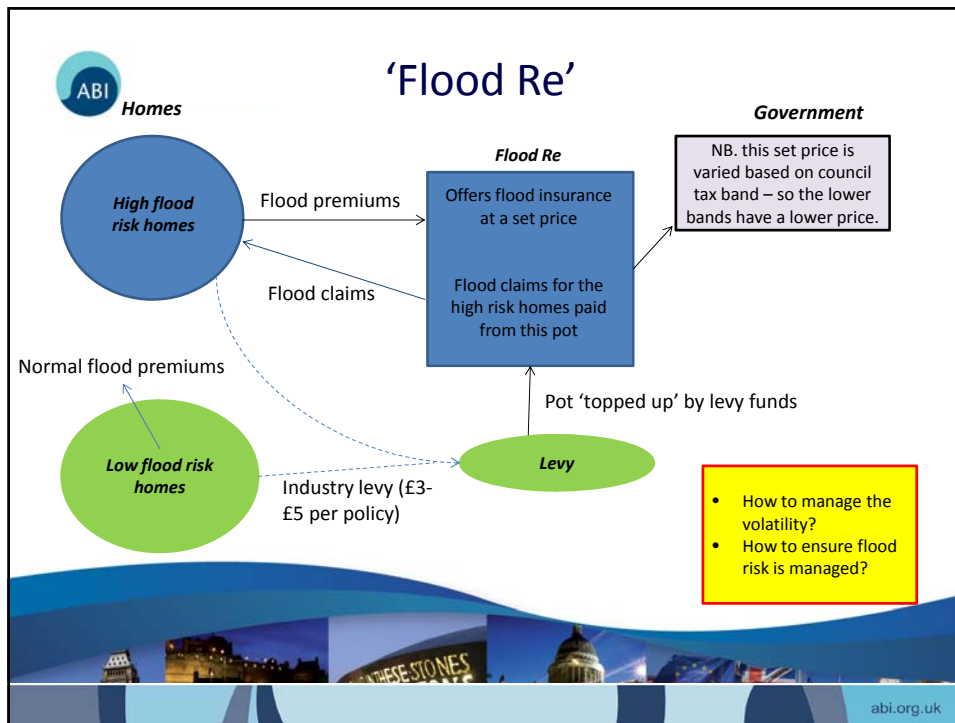


## The dangers of a free market

- If a single large insurer decides to stop offering renewals to its high flood risk properties, it could leave thousands of properties struggling to find a new insurer.
- Assuming cover *is* available, the table below shows the likely impact on household premiums of moving to risk-reflective prices, as would inevitably happen within a free market.

	£500 or greater	£750 or greater	£1000 or greater	£2500 or greater
Current number of homes in price bracket	75,000	35,000	21,000	1,200
Future number at risk reflective prices	650,000	250,000	135,000	4,000





**'Food for thought' for commercial property insurance**

1. Insurers' strategic attitudes to flood risk.
2. Property blight in specific geographic regions.
3. Boundaries between commercial and domestic property insurance.
4. Attractiveness of commercial versus domestic property insurance.





## A more sustainable solution

Flood insurance that is:

- Widely available
- Widely affordable
- Deals with the consequences of climate change
- Based on sound insurance principles?



**And how do we reach agreement on the solution quickly?**

