


Institute  
and Faculty  
of Actuaries

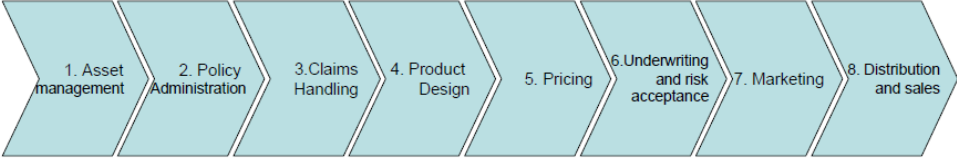
# Thinking outside the box

Robert Jarvis




22 May 2013

## The insurance value chain



```
graph LR; 1[1. Asset management] --> 2[2. Policy Administration]; 2 --> 3[3. Claims Handling]; 3 --> 4[4. Product Design]; 4 --> 5[5. Pricing]; 5 --> 6[6. Underwriting and risk acceptance]; 6 --> 7[7. Marketing]; 7 --> 8[8. Distribution and sales];
```



Institute  
and Faculty  
of Actuaries

22 May 2013

2

## The market as a whole



22 May 2013

3

## Does any of this matter?



22 May 2013

4

**Questions**

**Comments**

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.





Institute  
and Faculty  
of Actuaries

## The future of UK flood insurance

Patrick Bradley  
May 2013



22 May 2013

### Today...

- Background to flood insurance in the UK
- Statement of Principles
- Government involvement
- A successful scheme?
- Climate change and population growth
- Future flood costs
- Suggested solution



Institute  
and Faculty  
of Actuaries

22 May 2013

2

## Background to UK flood insurance

- Types of floods
  - river, coastal, and surface water flooding
- Flood insurance is included in typical policies
  - household insurance
  - small business packages
- Expensive extras...



Not the case in other countries!



22 May 2013

3

## UK flood insurance

- It plays a vital role in society
  - helps rebuild entire communities
  - affects stability of housing market and wider society
- A disproportionate number of vulnerable people are at risk of flooding (*Environment Agency*)

Government does have an interest in seeing widely available flood insurance



22 May 2013

4

## Statement of Principles

- A 'gentleman's agreement' since 1960s
  - insurers insure and Government spends
  - loosely worded
  - ends next month
- Generally considered a success
- ...but will not be renewed



Institute  
and Faculty  
of Actuaries

22 May 2013

5

## Government vs insurers

- *'We are looking for a new arrangement which delivers flood insurance to high-risk properties, which is affordable, which is as comprehensive as possible and which isn't a big burden on the taxpayer' (Secretary of State for DEFRA, Owen Paterson)*
- *'... it is widely accepted that the Statement of Principles cannot be renewed beyond 2013 and that a new way forward is needed' (ABI).*

A major flood event will expose and draw attention to the failure to act



Institute  
and Faculty  
of Actuaries

22 May 2013

6

## Government vs insurers

- A complex environment
- Private market may not provide widespread coverage
- May be expectation that the Government will step in
- Each has a capacity and a risk appetite
- Interests not aligned

Government involvement can help ensure  
widespread affordable coverage

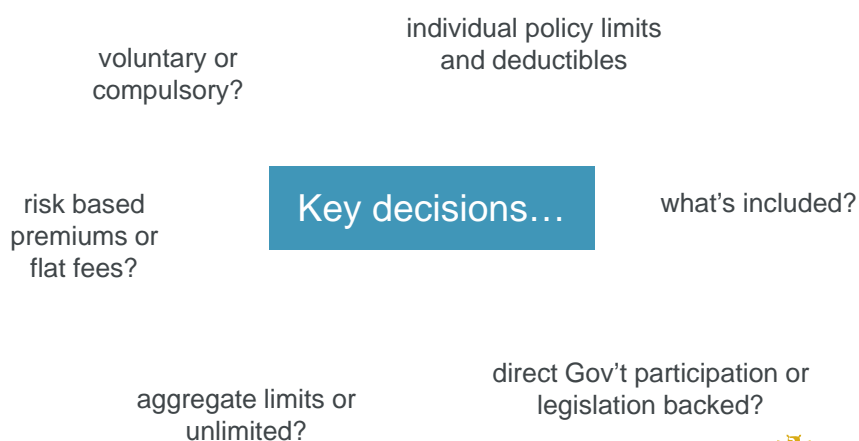


Institute  
and Faculty  
of Actuaries

22 May 2013

7

## Schemes from around the world



Institute  
and Faculty  
of Actuaries

22 May 2013

8

## Success?

- Recovery of community
  - trend towards including more rather than less
- Sustainability
  - limiting moral hazard
  - avoiding anti-selection
  - consider future environment



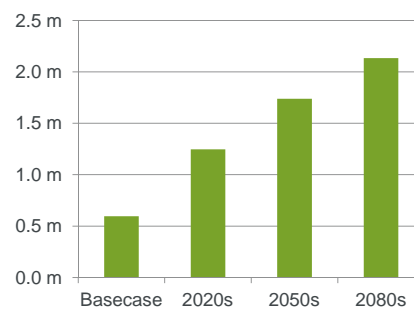
22 May 2013

9

## Future environment

- UK Climate Change Risk Assessment 2012
- Climate change
  - uncertainty
- Population growth
  - large projected increase

UK Households at significant risk of flooding



Will affect sustainability of any future scheme  
(or sustainability of not having a scheme!)

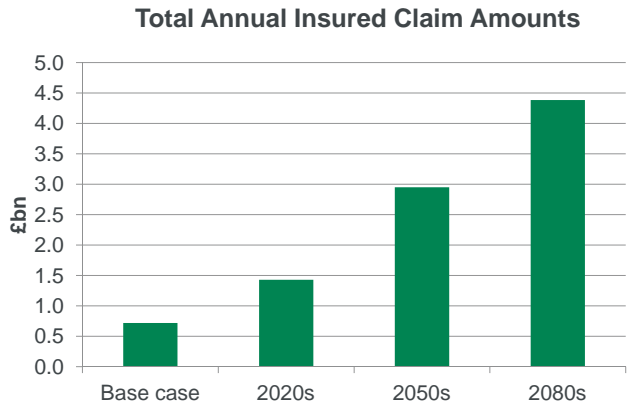


22 May 2013

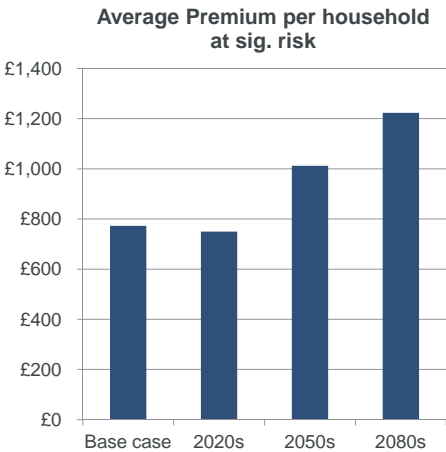
10



## Cost of future floods



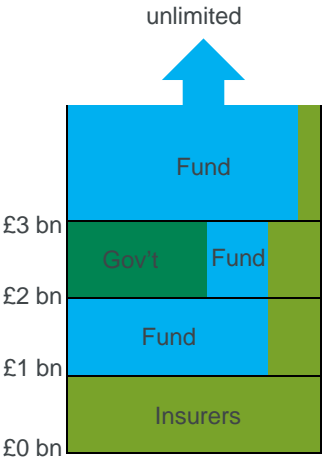
## Impact on vulnerable people



- Average cost per 'household at significant risk' increases by 58% by 2080s

## Suggested Solution

- Includes?
- Compulsory
- Affordable premiums
- Insurers co-insure
- Limit per claim
- Gov't participation
- Central fund with Gov't overdraft



## Questions?

rise  
mentorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support