The Future of Flood Insurance in the UK

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The current state of flood risk

- 23.8m properties not susceptible to flooding
- 2.4m properties at risk of river and coastal flooding
- 3.8m properties at risk of surface water flooding
- 1m properties at risk from river, coastal and surface water flooding

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

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Net benefits less costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash</td>
<td>BCR 11</td>
</tr>
<tr>
<td>2. Flat funding</td>
<td>BCR 8.5</td>
</tr>
<tr>
<td>3. Increased</td>
<td>BCR 7</td>
</tr>
<tr>
<td>4. Funding</td>
<td>BCR 4</td>
</tr>
</tbody>
</table>
Properties at risk of flooding in 2035

EA, 2009

SR10 flood and coastal risk funding

FDGIA (England)

EA, 2012
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

<table>
<thead>
<tr>
<th>Temperature Change</th>
<th>2°C</th>
<th>4°C</th>
<th>6°C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in average annual insured loss (AAL)</td>
<td>8% £47m</td>
<td>14% £80m</td>
<td>25% £158m</td>
</tr>
<tr>
<td>Increase in insured loss from 1-in-100 year events</td>
<td>18% £769m</td>
<td>30% £1240m</td>
<td>56% £2339m</td>
</tr>
<tr>
<td>Increase in insured loss from 1-in-200 year events</td>
<td>14% £1932m</td>
<td>32% £1920m</td>
<td>73% £4346m</td>
</tr>
<tr>
<td>Theoretical impact on Insurance Pricing* (based on AAL)</td>
<td>16%</td>
<td>27%</td>
<td>47%</td>
</tr>
<tr>
<td>Additional minimum capital required for 1-in-200 year flood*</td>
<td>£1,065m</td>
<td>£2,457m</td>
<td>£5,565m</td>
</tr>
</tbody>
</table>

*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.

<table>
<thead>
<tr>
<th></th>
<th>£500 or greater</th>
<th>£750 or greater</th>
<th>£1000 or greater</th>
<th>£2500 or greater</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current number of homes in price bracket</td>
<td>75,000</td>
<td>35,000</td>
<td>21,000</td>
<td>1,200</td>
</tr>
<tr>
<td>Future number at risk reflective prices</td>
<td>650,000</td>
<td>250,000</td>
<td>135,000</td>
<td>4,000</td>
</tr>
</tbody>
</table>
‘Flood Re’

- **High flood risk homes**
  - Flood premiums
  - Flood claims

- **Low flood risk homes**
  - Normal flood premiums
  - Industry levy (£3-£5 per policy)

- **Flood Re**
  - Offers flood insurance at a set price
  - Flood claims for the high risk homes paid from this pot

- **Government**
  - NB. this set price is varied based on council tax band – so the lower bands have a lower price.

- **Levy**
  - Pot ‘topped up’ by levy funds

‘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?