Thinking outside the box
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The insurance value chain
The market as a whole

Does any of this matter?
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.
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
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!

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
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

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
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

Schemes from around the world

Voluntary or compulsory?  
Individual policy limits and deductibles

Risk based premiums or flat fees?  
What's included?

Aggregate limits or unlimited?  
Direct Gov't participation or legislation backed?
Success?

• Recovery of community
  – trend towards including more rather than less

• Sustainability
  – limiting moral hazard
  – avoiding anti-selection
  – consider future environment

Future environment

• UK Climate Change Risk Assessment 2012

• Climate change
  – uncertainty

• Population growth
  – large projected increase

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

Total Annual Insured Claim Amounts

Impact on vulnerable people

Average Premium per household at sig. risk

- 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?