

NATIONAL TECHNICAL ADVISORY GROUP ON FLOODING ISSUES

ASSOCIATION OF BRITISH INSURERS – FLOODING ISSUES

Two commodities in ample supply when considering the issue of flooding in the UK are risk and uncertainty. These are core to the business of insurers yet protecting individuals from the financial consequences of flooding – now and in the future – still poses some complex challenges for them. ABI has been very active in both funding research and provoking public debates on flooding over the last few years.

In September 2002, the ABI announced a new approach in offering flood cover from 1 January 2003. A new *Statement of Principles* aims to provide reassurance to the overwhelming majority of insurance customers living in the flood plain about the continued availability of insurance in future.

ABI STATEMENT OF PRINCIPLES ON PROVISION OF FLOODING INSURANCE

General policy

1. It is the intention of ABI members that flood insurance for domestic properties and small businesses should continue to be available for as many customers as possible. The premiums charged and other terms - such as excesses - will reflect the risk of flooding but will be offered in a competitive market.

This statement of principles will apply from 1 January 2003 but is subject to review in the event of significant external shocks such as withdrawal of flood reinsurance. Successful operation of the principles is dependent on planned information on risk levels and investment being available from the relevant flood defence authorities.

Areas currently defended to Defra standards

2. The majority of properties in flood risk areas are already protected to the Department of Environment, Food and Rural Affairs' indicative minimum standard of 1 in 75 years for urban areas, or better. The level to which properties are defended above this will vary considerably and premiums will reflect different degrees of risk; but flood cover will be available as a standard feature of household and small business policies.

High risk areas where improved defences are planned by 2007

3. In a number of locations the risk of flooding is unacceptably high. Existing flood defences provide less protection than the Department of Environment, Food and Rural Affairs' indicative minimum standard of 1 in 75 years for urban areas. Where improvements in flood defences sufficient to meet these standards are scheduled for completion within the next 5 years, insurers will maintain flood cover for domestic properties and small businesses, which they already insure. The premiums charged and other policy terms - such as excesses - will reflect the risk.

If a domestic property in this category is sold the current insurer will continue to provide cover, subject to satisfactory information about the new owners of the property, especially their previous claims record.

Where a small business is sold the current insurer will consider whether to continue to provide cover; this will depend heavily on the proposed new use of the premises and the previous claims record of the new owner.

High risk areas where no improvements in defences are planned

4. There are other locations where the risk of flooding is unacceptably high - and in some cases they have been shown to flood frequently - and no improvements in flood defences are planned. Here insurers cannot guarantee to maintain cover, but will examine the risks on a case by case basis, use their best efforts to continue to provide cover and will work with the owners of domestic properties and small businesses which they currently insure to see what action could be taken by the property owner, the Environment Agency and the local authority, which might make the property insurable in some form. This action might include the use of accredited products, flood resilient materials and temporary defences to defend the property.

Action from Government

5. The implementation of these principles will depend on action from Government as detailed below with an annual review of progress:

- actual expenditure on flood defences to meet or exceed that set out in the 2002 Spending Review;
- implementation of the improvements in the system of flood defence planning set out in Defra's consultation "Flood and coastal defence funding review";
- full implementation of PPG25 (Planning Policy Guidance on Development Planning and Flood Risk), with full reporting of the level of compliance by local authorities and consideration of administrative processes in the planned review of PPG25 in 2004;
- the Environment Agency's flood asset database to be available to insurers by the beginning of 2003, and publicly available as soon as possible;
- early improvements in the flood warning system, and implementation of the Cabinet Office's recent emergency planning review;
- full and detailed consideration, including a benefit/cost analysis, to be given to integrated drainage management for England and Wales, similar to that in operation in Scotland;
- implementation of realistic solutions to sewer flooding including increased investment in improvement programmes and adoption of water companies and sewerage undertakers as statutory consultees in the development planning process.