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Flooding and insurance: a roadmap to 2013 and beyond

An interim report of the flood insurance working groups

25th May 2011

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Executive Summary

Insurance plays a key role in flood risk management. Defra Ministers hosted a meeting in September 2010 to discuss flooding and insurance. This was in the context of the expiry, in 2013, of the current agreement between Government and insurers, known as the Statement of Principles. Three working groups were formed to continue the dialogue after the meeting. This report gives an interim update on progress. The working groups will produce a final report in July at which point a follow-up meeting will be held.

Working Group 1 is identifying options for the role of private insurance after 2013. The Group has agreed a set of common principles and will test options against those principles. The Group has been gathering evidence and listening to perspectives from community groups, insurers, local government and other experts. It has looked to the role that insurance plays in flood risk management in other countries and will continue to consider options and evaluate them against the common principles.

Working Group 2 provides a forum to identify issues and suggest improvements to the way that flood risk information is provided and shared. The aim is to ensure that information on flood risk is transparent and available to all. Some key issues that the group has been investigating are: how information on flood risk can better feed into insurance policy terms; how flood risk information can be made easier to use and understand by the public; and alternative arrangements for the provision of flood risk data in England.

Working Group 3 focuses on resistance and resilience measures that individuals can use to reduce their flood risk. The Group is considering how resistance and resilience measures can reduce risk with knock-on consequences for the availability of insurance. The group is also considering the barriers to the take-up of resilient repair and how such measures can be better promoted and communicated.

Introduction

Insurance plays a key role in flood risk management, and the UK is unusual in having the majority of domestic and business flood damages borne through a competitive insurance market, albeit with a history of cross-subsidisation between policy holders. The voluntary Statement of Principles¹ agreement between Government and the Association of British Insurers (ABI) is due to run until 2013. Under the agreement, insurers provide cover to almost all properties, even those at significant risk under certain circumstances.

Defra Ministers hosted a meeting in September 2010 to discuss the role of flood insurance in flood risk management in the run-up to 2013 and beyond. Eight keystones emerged from the meeting, setting the direction for further work.

Keystones

- A shared approach and engagement with local communities is the only way forward
- Insurance cover for flooding should continue to be widely available
- Insurance policies should reflect flood risk, including resilience and efforts by individuals to limit their own damage
- Action by government, communities, individuals and businesses to reduce flood risk is the best way of keeping insurance terms affordable
- The take up of affordable insurance by low-income households should be encouraged
- Information on flood risk should be more transparent and available to all
- There should be a timely and transparent service for those going through a flood insurance claim
- The link between planning and flood risk management is recognised

Three working groups were formed to continue the dialogue on flood insurance and risk reduction within the framework of the keystones as part of a roadmap to 2013 and beyond. These are:

Working Group 1: The financial risk from flooding

Working Group 2: Data provision and transparency

Working Group 3: Customer experience and perspectives towards property-level resistance and resilience

The working groups are made up of representatives from Government, the Environment Agency (EA), the insurance industry and organisations with expertise or an interest in the issues being discussed. The groups are chaired

¹ The statement of principles is available at www.defra.gov.uk/environment/flooding/funding-outcomes-insurance/insurance

by officials from Defra and HM Treasury. A list of the organisations participating in the working groups can be found at the end of this report.

The working groups have met regularly since December recognising the importance of a collaborative approach – this interim report summarises progress so far. The working groups have a programme of work until July, when a final report will be produced and a follow-up meeting will be held.

Working Group 1: The financial risk from flooding

Background

The purpose of Working Group 1 is to produce a series of recommendations and options for covering flood risk after the ending of the current Statement of Principles in June 2013. It will focus on how we can ensure that flood insurance remains as widely available and affordable as possible post 2013.

In the first meetings the Group worked to agree to a set of common principles for how a future flood insurance model should function. The Group will assess any potential models against these criteria. The principles are as follows:

1. Insurance cover for flooding should be widely available
2. Flood insurance premiums and excesses should reflect the risk of flood damage to the property insured, taking into account any resistance or resilience measures
3. The provision of flood insurance should be equitable
4. The model should not distort competition between insurance firms
5. Any new model should be practical and deliverable
6. Any new model should encourage the take up of flood insurance, especially by low-income households
7. Where economically viable, affordable and technically possible, investment in flood risk management activity including resilience and other measures to reduce flood risk should be encouraged. This includes, but is not limited to direct Government investment
8. Any new model should be sustainable in the long run, affordable to the public purse and offer value for money to the taxpayer

Gathering the evidence

To date the Group has worked to gather and review evidence related to flood insurance. This has included an analysis of the flood insurance models used in other countries.

Several members of the group have also presented their own perspectives and proposals for potential flood insurance models. These have included:

- The British Insurers Brokers Association (BIBA) presenting on the role that specialist brokers and their 'find a broker' service can play in helping people at high flood risk to access insurance
- The Local Government Information Unit (LGIU) presenting on the role that local authorities could play, including encouraging take up of insurance and the potential for group purchase of insurance

- The Association of British Insurers (ABI) presenting on their research exploring potential future models for flood insurance. This included considering a free market for flood insurance, and thoughts on how flood insurance could potentially be subsidised above a certain premium threshold.
- The National Flood Forum (NFF) and Morpeth Flood Action Group proposal for a pooling arrangement for flood risk, with equal flood risk premiums regardless of risk

Next steps

The Group recognises that there are still a number of additional data sources and potential models that have not yet been considered or evaluated. As such, work in the next few meetings will focus upon these additional flood insurance models.

Following this the Group will look to agree upon a shortlist of the most robust potential models and then review these options against the principles outlined above and within the context of the keystones coming out of the September 2010 meeting. The group recognises the complex and sensitive nature of the details of all the models considered and the importance of taking into account the views of wide range of stakeholders, including communities, when arriving at recommendations.

Working Group 2: Data provision and transparency

Background

Working Group 2 provides a forum to identify issues and suggest improvements to the way that flood risk information is currently provided and shared, and to raise awareness of its availability.

Easily understandable and accessible and fit for purpose flood risk information is a cornerstone of an effective flood risk management system. It:

- Underpins decisions by Government on investment and deployment of resources
- Allows public scrutiny of those investment decisions
- Allows insurers to price flood risk appropriately
- Empowers individuals and communities to understand their flood risk and the steps they can take to reduce their flood risk

Five aims have been identified on which the Working Group has committed to make progress. These are set out below with progress updates.

1. To better, and more quickly, reflect flood risk in insurance policy terms
2. To investigate ways that insurers could share flood extent and claims data with the Environment Agency
3. To make flood risk information easier for the public to use and understand by:
 - a. Better communicating flood risk through existing routes
 - b. Explaining how flood risk information from different sources fits together and where people can find it.
 - c. Evaluating future ways of categorising and communicating flood risk.
 - d. Learning lessons from how flood risk information is shared in others countries.
4. To evaluate the potential of crowd-sourcing methods for the sharing flood information.
5. To evaluate alternative arrangements for the provision of flood risk data in England.

Understanding the situation

A history of flood risk mapping

The first national scale mapping of flood risk was initiated by the National Rivers Authority in 1994. By 2003, studies were completed at 821 'hotspot' locations. The first web-based flood map, an 'indicative floodplain map' was first published on the internet in November 2000.

In July 2003 the Environment Agency published its first five-year flood mapping strategy which included flood zones to meet the requirements of PPG25 (now PPS25) in England and TAN15 in Wales, a new flood map to provide an indication of the current risk of flooding to areas in England and Wales and a historic flood map.

Since 2004 the Environment Agency has published flood maps on the 'what's in your backyard' website which is updated quarterly and has made results of the National Flood Risk Assessment (NaFRA) directly available to insurers through a licensing agreement.

The Pitt Review of the summer 2007 floods recommended that the Environment Agency, supported by local authorities and water companies, should urgently identify the areas that are at highest risk from surface water flooding. As part of its strategic overview role, the Agency has made two maps showing surface water flood risk available to lead local flood authorities, local planning authorities and local resilience fora. Sir Michael Pitt also made recommendations on the mapping of reservoirs which have been completed.

The Environment Agency remain an important provider of flood risk information, however there will be an increasing number of sources of flood risk information under the Flood and Water Management Act and the Flood Risk Regulations 2009. Under the regulations, the Agency is responsible for assessing, mapping and planning to reduce flood risk from main rivers, the sea and large reservoirs. Lead local flood authorities are responsible for all other sources and combined flooding. Other authorities responsible for flood risk management, such as water and sewerage companies, will play an increasingly important role and hold important data on flood risk.

Insurers' use of flood risk data

Insurers rely on a range of data sources to build up a picture of flood risk. Most insurers in the household and small business markets use information from the National Flood Risk Assessment (NaFRA), supplied by the Environment Agency under licence.

Insurers may also make use of commercial flood models or information that they have developed internally, as well as other Environment Agency data. Some insurers also carry out bespoke analysis of local flood risk, using mapping and report-based information, when underwriting large properties.

UK insurers make decisions on risk selection and pricing with the aid of national flood models, and are mindful of the Statement of Principles and other market practices. However individual insurers will often take distinct approaches to flood risk. For example underwriting decisions may be

influenced by an insurer's strategic approach and risk appetite, or by the need to minimise accumulated exposures to large weather events.

Actions and areas for further work

A summary of progress against each Working Group aim is set out below.

1. Flood risk is better and more quickly reflected in insurance policy terms

More flood risk reduction will happen at an individual and community scale if it is clear that risk management activity will result in greater availability of cover and improved policy terms.

Three barriers have been identified:

- The cross subsidisation of insurance for properties at high-risk of flooding² means many householders living in those properties may not be paying a price which reflects the risk. It is therefore difficult for insurers to offer further reductions unless the risk insured is reduced below the level reflective of the current premium charged.
- The completion of large-scale community defences and resulting risk reduction to properties may not be feeding into insurance policy terms as quickly as it could.
- There may be community or individual risk-reduction activity and highly-localised topography which has a significant impact on the flood risk to a property but is difficult for insurers to incorporate into their underwriting.

There have been significant improvements in systemising the licensing and transfer of data between the Environment Agency and licensees (generally the insurers), with more improvements in the pipeline including a data-sharing website. Issues remain with insurers' ability to regularly and quickly incorporate new information into their pricing models. Further work includes exploring if the Environment Agency can communicate in advance more details of the geographic locations of updates to NaFRA.

There needs to be increased awareness amongst insurers and the public of the Environment Agency's letter-writing service, in which flood risk for the area surrounding an individual property is set out. This can go to insurers and include local information that may help individuals obtain cover.

Working Group 2 is looking to commission research jointly with Working Group 3 into how localised information, including property-level protection can be better incorporated into insurers' underwriting.

² Under-pricing of the flood element of home insurance for domestic customers at significant risk. Association of British Insurers, September 2010.

2. Investigation of the ways that insurers could share flood extent and claims data with the Environment Agency

Environment Agency activity to improve and calibrate flood risk models or target properties for warnings or property-level protection may be able to be improved by tapping into data sources held by insurers, for example information on the location, date and nature of claims.

The Association of British Insurers (ABI) and the Environment Agency are working together to test the feasibility of insurers providing flood data to the Agency.

3. Flood risk information is easier for the public to use and understand

The provision of flood risk information enables individuals and communities to better understand their flood risk and so be empowered to take a role in managing their own risk and involve themselves in decisions on flood risk management in their community.

The Environment Agency have made significant improvements in the communication of flood risk, through the “what’s in your backyard” (WIYBY) website, for example increasing the number of zoom scales with a new maximum zoom scale of 1:10,000 and introducing another layer of background mapping.

The Working Group has considered further ways in which the availability of flood risk information could be improved on the WIYBY site, which will be further investigated. Suggestions have included:

- Integration of surface water flood risk mapping onto WIYBY.
- Making it clearer whether one is viewing flood risk without defences or flood risk with existing defences.
- Use of a grid to aid users in understanding the resolution of the maps.

The Working Group has recognised that, currently, the main source of flood risk information is the Environment Agency. However there will be an increasing number of sources of flood risk information driven by the responsibilities of lead local flood authorities under the Flood and Water Management Act and the Flood Risk Regulations. The Working Group will produce a factsheet setting out the sources of information on flood risk including from water and sewerage companies. This factsheet will be publicised through members’ websites.

Surface water flood risk mapping has been discussed and, in particular, whether a national-level, coordinated surface water flood risk map should be made available in addition to the information provided through preliminary flood risk assessments by lead local flood authorities. The Working Group will

make recommendations on the provision of surface water flood risk information.

Future ways of categorising and communicating flood risk

Flood risk information has built up over the years on a piecemeal basis, with different information and products provided for different sources of flooding, and for different purposes. This means flood risk information is seen as inaccessible and difficult to understand. It could be made clearer and simpler using a consistent scale with key probability thresholds. This builds on the approach in catchment flood management plans, meets the new requirements of the Flood Risk Regulations, and supports risk assessment under the Civil Contingencies Act.

Future risk assessment could be based on this approach, making comparisons and totals across different sources of flooding easier and ensuring a consistent understanding of risk. This could form the basis of a better way to communicate risk by all risk management authorities and other partners.

Environment Agency directors are considering the proposal in May. Working Group members supported this work and are providing comments. A revised framework could be implemented in time to meet the December 2013 deadline under the Flood Risk Regulations for the creation of flood hazard maps and flood risk maps.

4. Evaluation of the potential of crowd-sourcing methods for the sharing flood information

Recent technological advances mean that individuals can capture and share information and data using web-based tools. There are examples of this approach being used for floods – During the floods of July 2007, BBC Berkshire created an interactive flood map to record the event as it advanced. The Working Group will consider applications of crowd-sourcing to share information on flood risk at a future meeting.

5. Evaluation of alternative arrangements for the provision of flood risk data in England

Flood risk information in England is primarily provided by Government and can be viewed for free through the Environment Agency website. Licensing arrangements exist for customers to access the entire dataset. The Working Group will, at a future meeting, take a strategic look at alternative delivery arrangements, including making flood risk information more freely available, ensuring consistency with guidelines emerging from the Public Sector Transparency Board.

Working Group 3: Customer perspectives and resistance and resilience

Background

The Group agreed that its work should focus on answering the following questions:

- What is the role of resistance and resilience measures in reducing flood risk, both for new and existing homes?
- How could resistance and resilience measures contribute to ensuring that flood insurance remains widely accessible?
- What barriers exist to wider take up of resistance and resilience measures? How might we address these?
- What more can be done to promote resilient repair following a flood?
- What are the issues around communication of resistance and resilience to customers? Including:
 - how best to raise awareness;
 - how existing research and advice can be better communicated to those that need it; and
 - how best to communicate with customers post-flood about resistance and resilience

The Group has agreed to consider these issues in three themes:

- Existing buildings
- New buildings
- Customer experience and perspectives

The Group has met three times, focussing on the existing buildings and new buildings themes. The Group aims to identify actions and recommendations that can be supported by all members.

Understanding the situation

Initial discussions within the Group have been helpful in terms of developing a shared understanding of the current situation, which is outlined below.

Flood insurance cover and resistance and resilience

The UK insurance industry currently provides insurance against flooding as a standard feature of buildings and contents insurance. In most cases, household insurance premiums do not, currently, reflect the actual flood risk to properties. The costs of flood damage are often shared between the premiums of all householders, whether or not they are at risk of flooding, although as understanding of flood risk improves so will the ability of insurers to price this risk more accurately.

The current cross subsidy means that many householders living in high-risk properties may not be paying a price which reflects the risk. It is therefore difficult for insurers to provide financial incentives, through insurance premiums and excesses, to promote resistance and resilience as in many cases the premium will not reflect the high risk of flooding to the property. This may change as the insurance market moves towards more risk-based pricing in future.

Mainstream insurers will generally insure properties in flood-risk areas, and will normally continue to provide cover for properties following a flood, albeit that this may be at a higher price. Mainstream insurers may however refuse to take on new properties with a flooding history or in an area deemed to be at significant flood risk. There are specialist brokers and insurers who specialise in insuring properties at high flood risk, who can provide cover in the majority of cases. However, the general public may not be aware of these options, particularly if they rely on price comparison websites which will tend only to show products from mainstream insurers. This is addressed below.

How can resistance and resilience help people access affordable insurance currently?

Resistance and resilience measures can avoid the need to claim, or reduce the value of any claim made, which can help maintain access to mainstream insurance. It is more common for insurers to take account of flood resilience measures when providing insurance to large commercial and public sector customers. For homes, some specialist insurers will take account of resistance and resilience that are installed to reduce the effects of flooding. These specialist insurers may offer a way for properties at very high risk, with a history of flooding, to maintain access to insurance.

How could this change?

It is possible that in the future, insurers will routinely ensure that the flood risk to a particular property is better reflected in the policy terms, meaning higher premiums for properties in high-flood-risk areas. If the market did develop in this way, we would expect to see an increase in specialist insurance options for properties at high risk, including greater recognition of resistance and resilience measures. Even now, there are a number of steps that could be taken to help insurers better understand the impact of resistance and resilience measures and to promote resistance and resilience to householders at flood risk.

Barriers

The Group has discussed the barriers to resistance and resilience, and agreed that the priority areas for further exploration are:

- **Customer attitudes**, in particular, why people are sometimes reluctant to install measures even where funding is provided
- **Understanding of the impacts** of resistance and resilience – improving understanding could help insurers take account of these measures in future
- Improved **understanding of the costs**, for example, there are varying estimates of the cost of resilient repair
- **Funding** – the Group is keen to understand the implications of mainstreaming provision of funding for resistance and resilience measures into the new Flood and Coastal Resilience Partnership Funding approach.

Actions and areas for further work

The Working Group has identified a number of practical actions and agreed the priority areas for further work.

The Group agrees that there is a need to **raise awareness of resistance and resilience**, and to draw together the range of information available to make it more accessible. In particular:

- The **Chartered Institute of Loss Adjustors** and **National Flood Forum** (NFF) are working together on a post-flood factsheet for flooded property-owners, including information on resilient repair options
- The Group has identified that there is a lack of case studies showing the benefits of property-level protection and **particularly** resilient repair. **All members** are contributing case studies.
- A future meeting is planned on customer experience and perspectives, which will discuss how we can best communicate about resistance and resilience with the public and what practical steps members can take.

The Group has identified the need to **raise awareness of insurance options for those at high risk**, including making the public aware that there are specialist brokers and insurers who will take account of steps taken to make a property more flood resilient. In particular:

- **BIBA** has proposed that all insurers should adopt “signposting” – i.e. where they are unable to insure a property due to flood risk, they should advise the customer of other organisations who may be able to help. This will be discussed further in future meetings.
- **Defra, the Environment Agency, ABI** and **BIBA** have produced a core script to use with local authorities involved in the property-level grant scheme who are raising queries about insurance. It aims to

explain the current insurance market and why it is that many insurers are not able to reduce premiums where resistance and resilience is installed, as well as explaining the specialist insurance options that may be available.

The Group agrees that we should **improve our understanding of the impact resistance and resilience measures have in terms of reducing flood damage**. This will enable insurers to take resistance and resilience measures into account in future. The Group also wishes to discuss whether there is **potential for common standards or assurance schemes**, which could help give insurers greater confidence in these measures.

- Working Group 3 are looking to commission research jointly with Working Group 2 into how localised information, including resistance and resilience measures can begin to be incorporated into insurers' underwriting.
- **BIBA** is considering whether it can offer any further evidence on the costs of resilient repair.
- The **NFF** will be providing information on work it has done with the Cumbria Community Foundation to assess the costs of resilient repair and likely damages avoided.

Defra has invited the Working Group members to participate in the upcoming evaluation of the grant scheme and in the development of new funding proposals for resistance and resilience. Defra has also given a presentation on the new 'payment for outcomes' funding proposals to the Group.

The Group wishes to further explore how **resilient repair** could be promoted. Views are mixed regarding whether this is best done via regulation (i.e. building regulations); the market (i.e. development of new insurance products offering resilient repair); or promotion and encouragement.

New build

Most of the Group felt that the current systems for ensuring new build was safe and resilient from a flood-risk perspective was basically fit for purpose, though some emphasised the need to review the situation in light of plans for the National Planning Policy Framework currently under development

The Group had no strong view as to whether development and flood risk decisions should be made at national or local level, the important thing was for the right controls to be in place.

The Group agreed that it was vital that the right information on flood risk and resilience be made available for all parties, including developers, insurers and potential purchasers and that these information sharing requirements are built into the system.

Working Group Membership

Working Group 1: The financial risk from flooding

Association of British Insurers
British Insurance Brokers' Association
Department for Communities and Local Government
Defra
Edmund Penning-RowSELL
Environment Agency
Financial Services Authority
HM Treasury (chair)
Local Government Association
Local Government Information Unit
National Flood Forum

Working Group 2: Data provision and transparency

Association of British Insurers
Association of Drainage Authorities
British Insurance Brokers' Association
Defra (chair)
Environment Agency
HM Treasury
National Flood Forum
Risk Management Solutions

Working Group 3: Resistance and resilience

Association of British Insurers
British Insurance Brokers' Association
Chartered Institute of Loss Adjusters
Communities and Local Government
Defra (chair)
Environment Agency
Local Government Association
National Flood Forum

Other organisations have also been involved in working group meetings:

AXA
Council of Mortgage Lenders
Home Builders Federation
Lloyds Banking Group
Royal Sun Alliance
Zurich