



PE1441/C

Scottish Parliament Public Petition PE01441: Flood Insurance Problems

Response from the Association of British Insurers

The UK Insurance Industry

The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 26% of the UK's total net worth and contributing £10.4 billion in taxes to the Government. Employing over 290,000 people in the UK alone, the insurance industry is also one of this country's major exporters, with 28% of its net premium income coming from overseas business.

Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed. Every day, our members pay out £147 million in benefits to pensioners and long-term savers as well as £60 million in general insurance claims.

The ABI

The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

The ABI's role is to:

- Be the voice of the UK insurance industry, leading debate and speaking up for insurers.
- Represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy and regulation.
- Advocate high standards of customer service within the industry and provide useful information to the public about insurance.
- Promote the benefits of insurance to the government, regulators, policy makers and the public.

Response

1. ABI views on the specific issues raised in the petition itself

The petition raises a number of key issues:

- The Statement of Principles agreement will expire on 30th June 2013, and will not be renewed. We note that Professor Crichton agrees that renewal would not be a wise course of action.
- If no agreement is reached on a more sustainable, long term arrangement, at least 200,000 households throughout the UK could struggle to access affordable insurance. Note that this is an estimate and we have not carried out any detailed analysis of the impacts in England, Scotland, Wales or N Ireland.
- We agree that, based on the proportion of properties at risk of flooding, flood risk is higher in England (and Wales) than in Scotland (although there is a lack of data on the annual probability of those properties flooding). However flood risk is a problem in Scotland, and Scottish consumers at high flood risk will face problems accessing insurance if we do not find a suitable solution. This is exemplified by the recent flooding in Scotland.

However there are a number of points raised in the petition that we do not support:

- The suggestion that the Scottish Government is not represented in discussions between the ABI and the Government is incorrect. Scottish officials are in regular contact with their counterparts in Westminster, and we understand that engagement has also taken place at Ministerial level. The ABI also engages with the Scottish Government and the Scottish Environment Protection Agency (SEPA) directly on a regular basis.
- Professor Crichton suggested that the current cross-subsidy in the market (from low risk to high risk households) is “over £200 million a year”. Published ABI research from 2010, based on our members’ data put this figure at £151 million.
- The petition implies that a „final solution” has been agreed. It has not. The ABI has put forward a proposal that would see the premiums of high flood risk properties across the UK capped, with the „subsidy” funded through an industry levy, and we remain in intensive discussions with the Scottish and UK Governments about this approach.
- Should such a model be delivered, we would not intend that the facility be available to high flood risk properties built after 1st January 2009 (as is the case with the Statement of Principles). Therefore, we do not recognise the danger raised by Professor Crichton that “this subsidy will enable property developers in England to continue to develop in the flood plain”. This is precisely the reason that the ABI’s position is to exclude new developments from any scheme.

2. ABI views on the issues raised during the discussion on the petition

- One issue raised was the suggestion that resilient repair should be „the norm“ for flooded properties. Adrian Webb explained the reasons (which are valid) that this would need to be mandated if it were to become universal. On the one hand, such an approach would lead to increased resilience, but on the other hand it would interfere with consumer choice about their own homes and, of course, increase insurance premiums because the repairs would generally be more expensive. In the absence of anything mandated in building regulations, the industry has been working closely with other stakeholders on the forthcoming British Standards Institute PAS-64 best practice guidance on mitigation and recovery of water damaged buildings.
- The main issue raised in the session was the appropriateness of a subsidy process between policy holders in Scotland and in England and Wales. As stated earlier, the ABI is not in a position to comment on the quantum of relative flood risks (and hence subsidies) between countries, but we would, like Professor Crichton, suggest that this is a matter for Scottish officials to discuss with policy makers in Westminster (as we understand is happening regularly). It is important to note that any benefits of more granular approaches must be weighed up carefully against the costs of increasing the complexity of insurance systems.
- We disagree with the implication by Professor Crichton that most insurers do not take into account differences between the ways flood risk is managed in England and Scotland. Insurers aim to understand risk as accurately as possible, and this understanding is becoming increasingly sophisticated across the market. What matters when setting insurance premiums is not Professor Crichton’s “42 ways...” *per se*, but the reality of flood risk on the ground, and the majority of flood risk models used by insurers contain detailed information on actual flood risk for the whole of Great Britain.
- Having said this, there is one area where it is more difficult for insurers to understand risk in Scotland than it is in England or Wales. In England and Wales, the Environment Agency has developed a commercial licence to allow insurers to use their data for commercial purposes (i.e. setting premiums), meaning that insurers can easily take account of any EA flood defence work. However in Scotland, SEPA have not yet developed a commercial licence (as they committed to do in the most recent Statement of Principles in 2008). The most significant impact of this is that insurers are not allowed to use the Scottish Flood Defence Asset Database (SFDAD) when setting premiums, which means that it is much harder for insurers to take account of flood risk management work in Scotland. We have written to SEPA and Ministers about this, and urgently need the problem to be solved.
- Finally, Professor Crichton suggested that, for parties such as the ABI, there “is no interest in anything north of Islington”. We feel that this is an inappropriate and offensive comment about an organisation which represents an industry with a large footprint in Scotland, which has a Scottish-based Director of Scottish Affairs and which puts significant time and resources into engaging with the Scottish Government and Parliament, both on flooding and more widely. The committee should rest assured that the ABI is cognisant of the need for any flood insurance solutions to work effectively across the UK, is

working closely with Scottish officials, and has often encouraged officials in Westminster to do the same.

3. Q1: Views on the petitioner's evidence

See answers above.

4. Q2: Are you aware of any occasions when this provision [the Law Reform (Miscellaneous Provisions) (Scotland) Act 1985, which allows insurers to sue a developer for recovery of any flood claim costs] has been used by insurance companies to pursue developers of property on flood plains?

No, we are not aware of any occasions when the ABI has sued a developer for the recovery of flood claim costs. We do not believe that this is because insurers are unaware of the Law Reform Act 1985. Insurers would need to prove that planning permission was given due to negligence on behalf of some party, maybe the planner or the developer or both, probably based on their assessment of the risk of flooding. This would never be easy.