
THE ASSOCIATION OF BRITISH INSURERS
AND
THE SCOTTISH GOVERNMENT



A JOINT STATEMENT
ON
THE PROVISION OF FLOOD INSURANCE

DECEMBER 2008



ABI/ GOVERNMENT STATEMENT

ON FLOODING AND INSURANCE FOR SCOTLAND

1. The Scottish Government and the Association of British Insurers (ABI) agree on the importance of managing the risk from flooding to people and property. As previous floods in Perth, Glasgow and Moray have demonstrated, flooding can have devastating impacts: it can cause loss of life, displace thousands of people, and can cause major economic and social dislocation.
2. While flood defences, effective surface water management, flood warnings and other policies can reduce the risk from flooding, this risk can never be completely eliminated. In the UK, unlike in most other countries, insurance against the impact of flooding has been a standard feature of household and many small business insurance policies since the early 1960s. This enables households and small businesses to plan for and minimise the financial cost of flooding while insurers provide effective and efficient claims services and repair teams if flooding does occur.
3. The ABI and the Scottish Government both want to ensure that the risk from flooding is managed effectively and that flood insurance remains as affordable and widely available as possible so that consumers and small businesses continue to be able to protect themselves from the financial cost of flooding. Since 2000, this has been achieved through a 'statement of principles on flood insurance': in the short term this commits insurers to continue to provide flood insurance under certain scenarios and the Scottish Government to manage the risk from flooding. However, we recognise that the statement of principles may distort the market, hinder the development of specialist flood insurance for the more difficult cases and limit incentives for the uptake of cost-effective resilience measures to protect individual properties.
4. The ABI and the Scottish Government have agreed to work together to provide a long-term solution that will enable flood insurance to continue to be as widely available as possible without distorting the market. To achieve this, we have identified the following measures that must be taken:
 - improve our understanding of flood risk through assessing both the probability and consequences of flooding from all sources including surface water;
 - work towards putting in place a long-term (25+ years) strategy to reduce flood risk; which will set out the Scottish Government's objectives and measures at a national level, ensuring effective and prioritised allocation of resource across six year planning cycles, backed by local plans with realistic and deliverable objectives and measures and agreed outline spending plans that are aligned with funding arrangements for all responsible authorities;

- retain national planning policy so that planning authorities should prevent inappropriate development in flood risk areas, and that any essential new development in medium to high flood-risk areas is flood resistant and/or resilient as appropriate;
 - raise awareness in areas where flood risks are significant, encourage actions to mitigate and minimise the risks and costs of being flooded, including reinstatement of flood damaged property in a more resilient way; and provide information about how to obtain flood insurance; and
 - promote access to insurance for low-income households.
5. The ABI and the Scottish Government agree that implementing these measures over the next five years should ensure that flood insurance continues to be as widely available as possible without the need for the statement of principles from 1 July 2013. Until that date, subject to annual reviews to confirm continuing progress and to update commitments as necessary, the ABI and Scottish Government have agreed that the statement of principles will remain in force.
6. The revised statement of principles, published on the ABI website, will apply from 1 January 2009. It remains subject to additional review in the event of any significant external shocks, such as a withdrawal of flood reinsurance. The statement of principles will not apply to any property built after 1 January 2009.

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SCOTTISH GOVERNMENT COMMITMENTS ON FLOOD RISK MANAGEMENT

The Scottish Government has agreed the following as part of the joint statement on flooding and insurance for Scotland:

Improving flood risk assessment

- Establish how to streamline arrangements for providing available flood risk data from the Scottish Environment Protection Agency to insurers in an appropriate format under agreed licensing and charging arrangements that enable insurers to use the data for assessing risk, underwriting, pricing and administering insurance.
- Scottish Environment Protection Agency to prepare Flood Hazard and Flood Risk Maps covering flood risk from all sources with appropriate arrangements for communicating this effectively to the public and insurers in a convenient administrative format that provides as accurate and specific data as possible whilst recognising the appropriate degree of uncertainty that attaches to the data.
- A work plan for delivery of the commitments under this section, covering the period through until 2013, will be agreed by end of March 2009 with early release to insurers of maps currently available on river and coastal flooding.

Reducing flood risk

- Scottish Government to ensure that Scotland benefits from the lessons learned in England and the action points identified in the Pitt report, wherever they are relevant.
- Scottish Government to provide data to identify locations that are expected to benefit from improved flood defences against flooding from main rivers and the sea within the next five years by January 2009 and to update this annually thereafter, data to be included is to be agreed by March 2009.
- Take forward a new Flood Risk Management Bill that ensures an appropriate regulatory environment and establishes the responsibilities and powers needed for those responsible to ensure the maximum possible social and economic resilience against all forms of flooding, covering assessment of flood risk from all sources and preparation of flood risk management plans, including transposing the EU Floods Directive.

- Scottish Government to work towards putting in place a long-term (25+ years) strategy to reduce flood risk; which sets out the Scottish Government's objectives and measures at a national level, ensuring effective and prioritised allocation of resource across six year planning cycles, backed by local plans with realistic and deliverable objectives and measures; agree outline spending plans that are aligned with funding arrangements for all responsible authorities; report annually on progress towards developing and implementing the plans.
- Produce the first version of long-term (25+ years) objectives and measures for managing flood risk at a national level in 2015, prioritised over six year planning cycles, based on available information about flood risk.
- Ensure local authorities publish local flood risk management plans, that include realistic and deliverable measures that align with national plans over the current planning cycle.

Development planning policy and building design

- Scottish Government to review the planning policy framework for flood risk to ensure that it aligns with the new Flood Risk Management (Scotland) Bill and continues to prevent inappropriate development in flood risk areas.
- Establish how to improve building design in flood risk areas; and how to encourage homeowners to take steps to protect their homes.

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ABI STATEMENT OF PRINCIPLES ON THE PROVISION OF FLOOD INSURANCE

- The Scottish Government and the insurance industry have agreed that the conditions should be in place to enable the insurance market to be able to provide flood insurance to the vast majority of households and small businesses efficiently and without the specific commitments below from 1 July 2013. Thereafter, the industry will continue to work with existing customers to explore insurance options for domestic property and small business customers where the flood risk is significant and no public plans are in place to defend the property. Throughout this period, ABI members commit to making advice available to customers which will encourage them to increase the resilience of their property as part of its reinstatement, following flood damage.

Until 30 June 2013, ABI members commit to:

- Continue to make flood insurance for domestic properties and small businesses available as a feature of standard household and small business policies if the flood risk is not significant (this is generally defined as no worse than a 1.3% or 1 in 75 annual probability of flooding).
- Continue to offer flood cover to existing domestic property and small business customers at significant flood risk providing the local authority has announced plans and notified the ABI of its intention to reduce the risk for those customers below significant within five years. The commitment to offer cover will extend to the new owner of any applicable property subject to satisfactory information about the new owner.

It is important to note that:

- The premiums charged and policy terms will reflect the level of risk presented and are not affected by this commitment.
- This commitment does not apply to any new property built after 1 January 2009: the ABI encourages developers and customers purchasing a property in a new development to ensure that it is insurable for flooding. The ABI intends to publish guidance on insurance for new developments later this year.

This commitment is subject to annual review that will consider progress in resolving the areas of continuing work and implementing the Scottish Government's commitments and to additional review in the event of any significant external shocks, such as a reduction in the availability of flood reinsurance or major changes in the UK insurance market.

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