



## **Government's Housing White Paper – Fixing our Broken Housing Market** **Written evidence from the Association of British Insurers**

### **About the Association of British Insurers**

The Association of British Insurers is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12bn in taxes and manage investments of £1.6 trillion.

### **Executive Summary**

- The Association of British Insurers (ABI) welcomes the opportunity to respond to the Department for Communities and Local Government white paper on *fixing our broken housing market*. The insurance industry supports the Government's objective to build more homes to create a more affordable housing market for the future. However, it is vital that these new homes are built in an appropriate and sustainable way that enables continued access to affordable home insurance.
- This submission will discuss a number of home insurance considerations that should be taken into account when seeking to expand the supply of affordable homes in the housing market.
- With over 1 in 6 properties in England at risk of flooding it is vital that the Government encourages detailed flood risk assessments prior to any new building development, including where build plans may impact the flood risk of surrounding areas. A joined-up Government strategy is required to protect properties at residual risk with increased and longer-term commitments on flood risk management investment; strengthening of the National Planning Policy Framework; increased responsibilities on developers and; improved transparency of local authority planning permissions. We draw attention to each of these issues in our submission and the challenges presented to the future insurability of the UK's housing stock.
- New challenges brought by urbanisation, lack of drainage capacity and surface water flood risk need to be met with appropriate land planning, sustainable drainage, and well thought through infrastructure solutions. A core aspect of the Government's white paper is 'planning for the right homes in the right places' and we support the proposals outlined to reinforce the National Planning Policy framework, particularly around suitable controls against building in inappropriate areas, and improving local land use plans to ensure that new developments are not built in inappropriate locations. We also call on the Government to ensure mandatory installation of sustainable drainage measures in all new builds as a matter of course, regardless of the size of the development.
- Building properties to be resilient against today's perils is key to creating a sustainable housing stock for the future. While the Government's white paper makes clear that it wants to 'build homes faster' it is important to ensure that increased quantity and speed of construction does not encourage poor practice and impact on building quality or the use of unsuitable materials. Poorer quality house builds will mean less sustainable housing in the long-term, which is a concern for the insurance industry. Building



regulations, construction methods and a skilled workforce need to be kept up to date to ensure property builds are resilient against a range of risks, including fire, flooding, windstorm and escape of water.

## **1. Importance of affordable home insurance**

- 1.1. Home insurance underpins the resilience of millions of households across the UK. It is important not to underestimate the importance of property to people's lives – not only is it the biggest single investment that most people will make, but it is also where many people keep irreplaceable possessions and family heirlooms. For most customers, home insurance is an intangible product that provides them with a promise of peace of mind if the worst was to happen, and for those unfortunate households who need to claim, it provides them with the vital financial protection to help them repair their home and get their life back to normal. In 2016 the insurance industry supported homeowners and renters through 19 million home insurance policies (12m combined buildings and contents insurance, 2m buildings only insurance, and 5m contents insurance policies) across the UK and paid out over £2.3billion in home insurance claims.
- 1.2. There is no reference in the Government's white paper to the importance of home insurance. However, access to insurance is vital for the ongoing sustainability of people's homes and for the continued functioning of the mortgage and housing markets. It is crucial therefore that the Government takes factors that may impact on the insurability of the housing stock into account when considering an expansion of the housing market.
- 1.3. The average premium for a combined (buildings and contents) home insurance policy is at its lowest since the ABI started collecting this data in 2012. In 2016 the average premium fell by 2 per cent on the previous year to just £298. However, rises in the Government's Insurance Premium Tax have pushed up many household's overall insurance bills and therefore we call on the Government to ensure that the rate of this tax does not rise further, increasing the burden on responsible households doing the right thing by protecting their assets.

## **2. Managing residual flood risk**

- 2.1. Currently, around 5.4 million properties in England are at risk of river, coastal and/or surface water flooding. This number is likely to rise due to the increased frequency and severity of major weather events, even without any future building of properties in areas of flood risk. The Long Term Investment Scenario (LTIS) Report<sup>1</sup> published by the Environment Agency in 2014 highlights that even if there was the optimum level of investment in flood risk management, and no further properties were built in flood risk areas, by 2060 the residual risk means over 250,000 properties in England would be in the high flood risk (1 in 30 year) category. This is a distinct challenge to the future

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<sup>1</sup> Environment Agency, 2014, [Flood and coastal erosion risk management: long-term investment scenarios \(LTIS\) 2014](#).



insurability of many of the UK's homes and the inappropriate building of any new homes in areas of high flood risk will make that challenge even greater.

- 2.2. Insurers will always take flood risk into account when deciding whether a property is insurable, as well as any development and planning measures that may have been undertaken to help mitigate that risk. If properties are considered by insurers not to be sufficiently protected and at significant risk, it may prove very difficult in the future for the owners of those properties to access affordable flood insurance.

*Recent market changes and accessing affordable flood insurance cover for the future*

- 2.3. The insurance industry recognised the difficulties some homeowners had when accessing affordable flood insurance. This is why the insurance industry worked with the Government to design and develop Flood Re, which now enables the insurance market to provide affordable flood cover to hundreds of thousands of homeowners in high flood risk areas.
- 2.4. Flood Re is a 'world-first' flood re-insurance scheme that enables insurers to offer competitive premiums and lower excesses to high flood risk homes across the UK. It is a not-for-profit scheme that is funded by the insurance industry via a levy of £180 million each year. The scheme sits behind the market, working with insurance providers to help offer more affordable flood insurance to those living in areas at risk of flooding. Insurers pass on the flood risk part of the home insurance policy to Flood Re at a fixed premium associated with the council tax band for the property. In high risk areas these premiums will be lower than would be the case if the flood risks were fully taken into account, as contributions to the costs will come from the statutory levy on all home insurers in the UK. It means that people living at high flood risk are able to shop around more easily to find policies with more affordable premiums and excesses. The scheme was launched in April 2016 and within one year, 130,000 policies had been ceded by insurers into the scheme.
- 2.5. However, it is important to be aware that Flood Re does not cover properties built after 1 January 2009. These were purposefully excluded from the scheme, to ensure inappropriate building in high flood risk areas was not incentivised. Thus, new developments are subject to risk reflective pricing, meaning those built without due consideration of flood risk may struggle to access affordable insurance.
- 2.6. It is also important to note that it is planned that Flood Re will transition to risk reflective pricing over time until the scheme ceases in 2039. The Water Act 2014, which sets out the statutory basis for the scheme, outlines that it will have a 25 year life, after which those benefiting from the scheme will be subject to an insurance market with prices that fully reflect the flood risk. Action by the Government and homeowners themselves is therefore vital in both understanding that the support that Flood Re currently offers is temporary, and to reduce the risk to those properties who are at high flood risk.

*Investment in flood risk management infrastructure*

- 2.7. We support the Government's intention in the white paper to ensure that both the density and form of development reflects the character, accessibility and infrastructure capacity of the area. However, the Government must increase the levels of investment of appropriate flood risk management infrastructure to protect local communities in both new and existing housing, particularly given the scenario that the Environment Agency's Long Term Investment Scenarios (LTIS) presents for 2060 (which does not incorporate any additional development). This requires an increase from current levels of funding for capital flood defence projects and their maintenance and commitments to increased funding over a longer time period. We would encourage the Government to work with Flood Re and the insurance industry to consider what levels of funding are required by 2039 to best prepare for a transition back to a risk reflective flood insurance market.
- 2.8. New developments do not exist in isolation. They impact on existing services and infrastructure. To ensure that future flood response and recovery efforts are not hampered by damage to major transport routes, the Government should consider developing a full flood risk assessment and maintenance programme for the UK's transport networks, including a focus on the structural integrity of bridges, over-burdened sea walls and rail and road networks, both in areas at high risk from flooding and where there is a potential for a collapse to restrict transport flows. This is particularly important for any areas which will see a significant increase in housing stock and increased density of homes relying on these key transport networks.
- 2.9. Local communities and housing depend on critical national infrastructure, and can be significantly disrupted if that infrastructure were compromised by an event such as a flood. For example, in December 2015 over 55,000 properties and ten schools in Lancaster were without power for the best part of three days and experienced significant disruption following the flooding of the local electricity substation. Critical infrastructure owners and operators must have long term flood risk management plans in place to manage their own flood risk and adapt to the impact of climate change over time. Furthermore new housing considerations must be factored into these plans to ensure that critical infrastructure can cope with the increased reliance on their services at times of major incidents.

**3. Ensuring responsible approaches to house building**

- 3.1. A responsible approach to house building is crucial to managing the risks posed to the future insurability of UK housing stock. We support the intention in the Government's white paper to boost local authority capacity to deliver planning applications and improve transparency. Improved accountability of those responsible for planning decisions in flood risk areas would provide greater reassurance that inappropriate building permissions are not being granted. Currently the Environment Agency (EA) provides statutory advice on planning applications in areas at flood risk. However, there is clear disjoint within the process, where local authorities are not

required to report back to the EA detailing the final planning decision and whether the EA advice has been taken into account.

- 3.2. The EA can object to a planning proposal on the basis that it does not meet the requirements of the flood risk assessment, but there is no responsibility for local authorities to report whether that feedback has been taken into account, such as requiring the planning application to be amended to improve measures to protect against flood risk to fulfil the EA's concerns. Although the EA can confirm that around 97 per cent of their advice is taken on board for planning developments – this is only where they have received feedback from the local authority. Currently there is no formal requirement for local authorities to report how the planning applications have been changed to close that feedback loop. The ABI supports a clearer, more transparent process, which would provide reassurance to insurers and local communities who are often concerned about the potential impacts of new developments. A responsibility to report publicly on planning decisions in a clear and transparent way, especially when decisions have been taken against EA advice, is required. This would also help empower consumers, and their legal representatives, in their decisions on whether to purchase a particular property.
- 3.3. Following our submission of evidence to the Environment, Food and Rural Affairs (EFRA) Committee's 2016 inquiry on the future of flood prevention,<sup>2</sup> the Committee endorsed our proposal and recommended that local planning authorities publish annual summaries of planning decisions taken against the Environment Agency's advice and action taken to monitor the impact of development on flood risk. Similarly, as recently outlined in the ABI's response to the EFRA Committee's inquiry into the Flood and Water Management Act 2010,<sup>3</sup> there is no requirement for local authorities to report on sustainable drainage system uptake, nor monitor their implementation or effectiveness. Given the aims within the Government's white paper to increase housing stock, this gap in information should be addressed as soon as possible through new requirements on local authorities.
- 3.4. Along with improving flood risk information for those looking to purchase a new home, the ABI believes that the Government should consider additional responsibilities for developers that build homes which subsequently flood. Greater responsibilities, covering a reasonable period of time from the build of the property, could help ensure that developers are held to account for inappropriate builds rather than the homeowner.
- 3.5. An ABI survey<sup>4</sup> in 2016 identified that fewer than one in three house-hunters investigate flood risk before buying a home and, while most property brochures offer detail on local schools and energy efficiency of a property, they do not provide information about flood risk. The potential house buyer may only uncover this

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<sup>2</sup> [Written evidence from the ABI](#) to the Environment, Food and Rural Affairs Committee inquiry 'Future Flood Prevention', 2016.

<sup>3</sup> [Written evidence from the ABI](#) to the Environment, Food and Rural Affairs Committee inquiry 'Post-legislative scrutiny: Flood and Water Management Act 2010', 2017.

<sup>4</sup> ABI press release, 2016, [Fewer than 1 in 3 investigate flood risk before buying a home](#).

information during property searches through the conveyancing process, often after significant sums of money have been spent on surveys and solicitors' fees.

- 3.6. To address this lack of early awareness of flood risk during the house hunting process, we believe that those looking to buy a home should be given more up-front information about the property's flood risk, in line with recommendation 63 from the Pitt Review that followed the 2007 flooding events. We suggest that estate agents and property search websites should automatically provide traffic-light style flood risk information for the homes they list. This information would not be a definitive guide to flood risk on an individual property but would be an up-front indication of where further investigations could be necessary, early in the house hunting process. If agents are not forthcoming in providing this information, we suggest that the Government should consider a route to mandate this.

#### **4. Building in the right places**

- 4.1. True sustainable development means not allowing inappropriate building to take place in areas of high flood risk, however the Committee on Climate Change reported that 1,500 homes a year are being built in areas of high flood risk<sup>5</sup>. This does not include properties that are at risk from surface water flooding, meaning that the true figure of buildings being built inappropriately is likely to be significantly higher.
- 4.2. Furthermore, it is doubtful whether the full implications of climate change within the lifetime of a property (approximately 100 years) are adequately taken into consideration when planning permission for new build properties is granted, bringing into question the future resilience of the new build housing stock against increasing flood risk.
- 4.3. Some locations, coastal zones in particular in many low lying parts of the world, which may be deemed at low or very low risk of flooding today, could become a higher risk as the impacts of climate change take effect. One international example of this is set out in Lloyd's 'Catastrophe Modelling and Climate Change' 2014 report<sup>6</sup> which highlights how a '20cm rise in the sea level at the southern tip of Manhattan Island increased Superstorm Sandy's surge losses by 30% (up to \$8bn) in New York alone'. Insurers invest in catastrophe modelling to help them anticipate the likelihood and severity of future catastrophes as well as flood mapping and modelling, which will all be taken into account when considering offering insurance to a property. For this reason, housing developments, particularly in coastal zones, need to consider future flooding risk – over a reasonable lifetime of the development - before approval is given.
- 4.4. New challenges brought by urbanisation, drainage and surface water flooding need to be met with appropriate land planning, sustainable drainage, and infrastructure

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<sup>5</sup> Committee on Climate Change, 2015, [Progress in preparing for climate change: 2015 report to Parliament](#).

<sup>6</sup> Lloyd's, 2014, [Catastrophe modelling and climate change](#).

solutions. The intention within the Government's white paper to enable local authorities to draw up and regularly update plans on what land is suitable for development should, if done properly, help to ensure that the necessary infrastructure and planning rules are enforced at an early stage. It should also help avoid inappropriate building in areas that are not suitable, such as flood risk areas or highly contaminated brownfield sites.

#### *Strengthening the National Planning Policy Framework*

- 4.5. The insurance industry strongly supports the suggested proposals to clarify flood risk policy within the National Planning Policy Framework (NPPF), to encompass minor developments and the cumulative impacts that many new developments may have on each other and the surrounding existing property. Robust implementation of the Strategic Flood Risk Assessment and associated sequential and exemption tests for both major and minor developments is fundamental to ensuring new homes are not built inappropriately at flood risk.
- 4.6. 90 per cent of planning applications are for developments of nine properties or less, and it is therefore crucial that these smaller developments are also subject to the detail of the framework to mitigate against the risk of them increasing flood risk within or beyond the development site. We believe that addressing the cumulative impact that a number of new developments may have on each other, and surrounding or downstream properties, is a valuable improvement to the NPPF, particularly in light of the ambitious plans to boost the supply of new homes across England by building between 225,000 – 275,000 homes per year.

### **5. Building in a sustainable way for future risks**

- 5.1. Building property to be resilient against current perils is key to creating a sustainable housing stock for the future. Measures are required to ensure that with quantity, quality does not suffer with changes in building practice and materials. Building regulations, construction methods and a skilled workforce need to be regularly updated to ensure property is resilient against current and future risks. There are a range of factors that should be considered here, from the increasing risk of windstorm to property construction, the implementation of sustainable drainage systems to lessen surface water flood risk, and the effects of modern methods of construction on fire and escape of water risks.

#### *Windstorm*

- 5.2. The ABI recently published a research report<sup>7</sup> into the impacts of various long-term climate change scenarios on UK windstorm losses. In 2016, which was a relatively benign year, there were 163,000 claims for domestic storm damage with the industry paying £141m to their customers in claims costs to repair this damage. The research suggests that in the future there will be an increase in the number of windstorms

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<sup>7</sup> [UK Windstorms and Climate Change, An update to ABI Research Paper No 19, 2009.](#)

affecting the UK and that the frequency and intensity of the most extreme windstorms will increase during the winter months. It is therefore imperative that building regulations take advances in the understanding of changes in windstorm research into account.

- 5.3. The key findings from the ABI report suggest that, at a national level, reasonable increases in windstorm losses for insurers would be expected under different climate scenarios.. On a regional level, there is a clear 'north-south divide' in impact, with the south experiencing a reduction in losses and the midlands and Northern Ireland seeing significant increases.
- 5.4. The north-south divide makes the uncertainty within the model particularly important, because of the position of London relatively close to the 'dividing line'. If storm tracks actually move slightly lower than modelled, London would then be within the area facing significantly increased losses, which would have a significant impact on overall insured costs.
- 5.5. The impact of increased wind speeds should be taken into account when constructing tall buildings – particularly as the Government's white paper refers to building upwards and reassessing housing density in areas with a significant demand for new houses. The impact of wind loads and building motions need to be considered carefully with respect to specific construction types, as well as any impact wind changes may have on surrounding properties when building upwards. We recommend revisiting building regulations to ensure construction types are fit for purpose for the potential of increased windstorm damage in the future.

*Implementation of Sustainable Drainage Systems (SuDS) for all new builds*

- 5.6. The Environment Agency has reported that 3.8 million properties in England are known to be at risk of surface water flooding. With the Government's plans for boosting the supply of new homes, SuDS can play a pivotal role in ensuring that these new properties are built in a manner which helps to manage surface water flood risk at the local level.
- 5.7. The ABI recently responded to the EFRA Select Committee's inquiry into the Flood and Water Management Act 2010, where we provided a detailed analysis of the need to implement SuDS within all new build properties.<sup>8</sup> Whilst the development of Defra's non-statutory technical standards for sustainable drainage systems in March 2015, and the strengthening of the NPPF in April 2015, are positive steps in encouraging the use of SuDS in new developments, neither are a substitute for Schedule 3 of the Flood and Water Management Act 2010. Both lack the statutory underpinning required to enforce sufficient take-up of SuDS to ensure a sustainable housing stock for the future. There is an urgent need to implement the Government's policy on SuDS under the Floods and Water Management Act 2010 to ensure mandatory installation of

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<sup>8</sup> [Written evidence from the ABI](#) to the Environment, Food and Rural Affairs Committee inquiry 'Post-legislative scrutiny: Flood and Water Management Act 2010', 2017.



sustainable drainage measures in all new builds as a matter of course, regardless of the size of the development.

- 5.8. The ABI would also like to see evidence of clearer monitoring on the use of SuDS by local planning authorities, with a responsibility to report publicly on planning decisions in a clear and transparent way; particularly when decisions have been taken not to install SuDS within a new build property. This would help to reinforce the existing requirements within the NPPF as well as other approaches aimed at driving the increased adoption of SuDS across England and increase confidence that new build housing is not impacting adversely on the already overwhelmed capacity of the drainage system, evidenced by the existing surface water flood risk problem.

*Modern methods of construction*

- 5.9. Modern methods of construction allow the design and build of modern and innovative new buildings. They can reduce construction time and costs, whilst increasing the sustainability and efficiency of a building. However, there are some uncertainties around how these types of construction will perform overtime, the level of damage that can be caused, and the impact on repair costs, particularly due to fire and escape of water (burst pipe) risks. These are of increasing concerns for insurers and modern methods of construction appear to have added to the average cost of fire claims and overall escape of water claims in recent years.

*Fire risk considerations, building regulations and pre-fabricated construction*

- 5.10. Fire safety is of upmost importance when building new developments. When building new properties, particularly when extending upwards, fire safety management, compartmentation, panel system construction, combustibility and fire performance of panel material as well as fire mitigation systems all need rigorous regulation. Modern methods of construction have led to an increase in the use of lightweight and combustible materials, such as insulation panels and timber frames, which can contribute to a greater degree of fire spread.
- 5.11. Introducing large quantities of combustible materials into building designs alters both the probability of fire and potential scale of loss. According to the ABI's claims data for domestic fire, the average cost of a fire claim has increased from £5,550 in 2006, to nearly £15,000 in 2016. The number of fire claims has decreased from 71,000 in 2006 to 26,000 ten years later, but the significant increase in the average cost of claims clearly highlights that when fires do occur, the cost of damage is significantly higher. Fire is one of the few perils which consistently meets an insurer's estimated maximum loss expectation, and therefore it is important to consider the implications of increasing the fire risk of a property, which insurers will take into account when offering cover.
- 5.12. For high rise construction, building regulations focus on the internal fire suppression and risk management. However, external cladding, made from combustible material

can often cause significant fire spread upwards and between buildings, which is a particular concern for areas of high building density.

- 5.13. Building regulations and approved document B (which assesses fire risk) were originally developed for a non-combustible and resilient housing stock, when minor deviations in the build may be tolerated. However, increases in the speed of building, and decreases in the associated costs have over time, led to a less resilient, more combustible and more intolerant designs. Slight modifications or bad practice in the installation of certain constructions, such as the joining of pre-fabricated pods, can lead to hidden voids through which smoke and water can permeate through a building, meaning a small incident, such as escape of water, or a small fire, causing disproportionately high costs to a significant part of the building. In the context of the Government's white paper and concerns around rising fire damage costs, the ABI would encourage a review of building regulations to reflect the modern methods of construction and deviation away from more traditional masonry builds.
- 5.14. While the Government's white paper clearly outlines an aim of faster construction methods, the increased use of pre-fabricated construction is a significant concern and can mean building repairs are less straightforward. For example, needing to replace a whole pre-fabricated pod section as opposed to completing a standard repair, or needing to remove the whole pod for repair off site, which can cause major disruption and potentially damage or disruption to surrounding pods and external finishes, thus increasing replacement costs and times. There are also concerns over obtaining replacement components, whether repair materials are readily available and the access to skills/expertise needed for these specialist repairs.

#### *Escape of water considerations*

- 5.15. Escape of water refers to water which has entered a property by the mains water supply, and has at some point in its journey escaped from the pipe, tank, or appliance that was meant to contain it, causing water damage to the property. Escape of water is a major peril, and one of the most common claims made to the insurance industry – in 2016 there were 324,000 escape of water claims (over 23% of claims made that year), amounting to £897 million pounds in claims costs. Understanding escape of water claims better, and the reasons for their consistent and costly nature, is a high priority for major home insurers across the UK.
- 5.16. There are a vast number of reasons why escape of water claims are a consistent and significant problem, many of which could be reduced by examining the design, installation and standard of materials used. Inadequate plumbing, the increase in the flow of water around a property due to more home appliances, more bathrooms / en-suites, and changes to the reliability of pipework materials (moving from copper pipes to plastic 'push-pipes') are thought to be contributing to the increasing costs of escape of water claims that the insurance industry is experiencing.
- 5.17. There is a concern within the industry that pressure to build a large number of properties very quickly may lead to cheap and problematic materials being used to



reduce the cost of properties. New properties must be built with adequate and robust standards of property design, water flow capacity, sustainable pipework and resilient plumbing materials, which are all vital elements to ensure that new developments are less likely to be susceptible to escapes of water leading to significant water damage.

**May 2017**