Flooding in London – A London Assembly Scrutiny Report
Follow up review
Submission by Association of British Insurers (revised April 2004)

1. The Association of British Insurers (ABI) is the trade association for insurance companies operating in the UK. It represents over 400 members who, between them, transact around 95 % of UK insurance business.

2. ABI welcomes the opportunity to contribute to the London Assembly’s follow-on review to its “Flooding in London” report. The ABI supports many of the recommendations put forward in the original report, and looks forward to following progress on these issues. This paper sets out the insurance industry’s current position with regard to provision of flood cover for existing homes and new developments in London, and addresses some specific points raised in the report in relation to insurance and flooding.

3. Insurance enables householders and businesses to minimise the cost of damage arising from unforeseeable events that may affect their property. Understanding and managing flooding risk remain serious concerns for the insurance industry, particularly as the impacts of climate change are felt more intensely, leading to increased flood risk. This follow-up review is timely, coming soon after the Government published its Sustainable Communities Plan\(^1\), an important component of which involves developing a large number of new homes in Thames Gateway – part of the Thames Estuary floodplain.

Insurance cover for flooding in London

Existing homes in London

4. Flood insurance for existing homes in the London region is covered by the ABI’s Statement of Principles\(^2\), which sets out the industry’s intention from January 2003 to continue to provide flood cover for the majority of households in the UK, provided they are at least protected to the Government’s minimum indicative standard of 1.3 % annual probability of flooding (or will be protected to this standard by 2007). The premiums charged and other terms – such as excesses – will reflect the risk of flooding, but will be offered in a competitive market.

\(^1\) http://www.odpm.gov.uk/stellent/groups/odpm_communities/documents/sectionhomepage/odpm_communities_page.hcsp
5. This assurance by the industry is contingent on a number of key steps from the Government, many of which will be of direct relevance to London’s flood defence planning, including:

- sustained spending commitments on flood management;
- implementation of changes to the administration of flood defence spending, and improvements to the development planning system;
- availability of high-quality risk data that takes account of current and planned defences; and
- implementation of realistic solutions to sewer flooding.

New developments in London

6. Insurers realise that planning authorities can be subject to pressure to consent to developments in high flood risk areas, particularly in order to meet Government housing targets. But planners need to recognise the concerns of insurers and others in financial services, and the possible implications of allowing developments in high-risk areas.

7. ABI’s supplement\(^3\) to the latest version of PPG25 examines the possible implications of new developments in flood-risk areas for the future provision of insurance. As new developments are typically designed to be in place for at least 50-80 years, their standard of defence needs to take into account both current flood risk and impacts of climate change on this risk. For example, a medium-high climate change scenario will increase winter peak river-flows by 20 % by 2050, which could have the effect of doubling flood risk.

8. Therefore, the minimum level of protection that would enable insurers to offer cover at normal terms for residential properties is a 0.5 % annual probability of flooding, after taking climate change into account. Most of London is currently protected to at least this standard on the Thames, so insurers would be able to provide competitive flood cover for most small-scale developments in the region, provided that defences are maintained and no development occurs that may compromise these defences. However, Thames tributaries and other minor watercourses may give rise to more localised flooding and possible insurance difficulties.

Thames Gateway

9. While much of the Thames Gateway regeneration will be new development, the nature and size of the risk, and the speed of development put it outside of normal consideration for insurance cover.

- **Nature of risk.** Thirteen of the fourteen zones of change in the Thames Gateway are within the Thames tidal floodplain, meaning that they are vulnerable to flooding from both tidal surges and peak river-flows. This double-threat will make it particularly challenging to develop an effective approach to managing the flood risk. However,

storm surges from the North Sea have the greatest potential to lead to a catastrophic flooding event. For example, over 300 people lost their lives and over 24,000 houses were flooded on the east coast of England in January 1953, after extremely high winds and a swelling tide pushed the sea to dangerous levels, and flood defences were breached. Furthermore, the impacts of climate change on these surges in the future is an area of notable uncertainty, and currently Defra guidance does not recommend including on any changes in storm surge height due to climate change because of this uncertainty.

- **Aggregation of risk.** According to the Government’s Communities Plan, 120,000 new homes will be built in Thames Gateway by 2016, with more planned for coming decades. However, events in the USA on 11 September 2001, together with increasing weather related claims world-wide, mean that catastrophe reinsurance capacity (which is traded internationally) is increasingly constrained. Individual insurers are now typically required to produce assessments of their aggregations of risk. In the future, reinsurers could conceivably consider re-evaluating their current policies on cover for aggregations above a certain size. The potential risk from a storm-surge flooding event similar to that in 1953 in Thames Gateway could mean that insurers have difficulty providing cover for this new development.

- **Speed of development.** The Environment Agency’s Strategic Flood Management Plan for the Thames Estuary will not be delivered to the Government until 2008/09. However, before then, many development plans in Thames Gateway will be approved. Insurers will have problems guaranteeing cover on any development where a comprehensive flood risk assessment has not been completed.

10. Thames Gateway could also present significant social exclusion problems for London. According to the Government, at least 50% of new “affordable” homes in Thames Gateway will be developed using modern methods of construction, and they are encouraging innovative approaches to create affordable housing. However, many of these construction techniques are largely untested, and there is currently little information about their long-term resilience to flooding and other perils (e.g., driving rain, water ingress, fire, wind). For example, experience in the Autumn 2000 floods suggests that homes constructed with timber frames or a high proportion of timber may have to be treated as total losses when damaged by flooding. This could increase the potential cost of insurance for low-income groups, as well as social and economic disruption during reinstatement.

11. ABI has been active in promoting the increased availability of insurance protection to low-income groups through continued promotion of its good-practice guide on “Insurance with rent”\(^4\) to both local authorities and the Government (ODPM). Social exclusion will be a key theme of ABI’s this

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\(^4\) “Insurance with rent: a best-practice guide for local authorities”, ABI, September 2001
year, and we would welcome working in partnership with others (including GLA) to take this forward.

12. All these issues need to be addressed urgently for Thames Gateway, so that all aspects of the financial services industry (insurers, lenders, investors) can be confident the proposed development plans. Unless insurers’ concerns about the flood risk and resilience of these new developments are addressed, insurers could find it challenging to continue to provide affordable cover for these new homes.

Insurance issues raised in “Flooding in London” report

Flood protection measures following flood damage

13. The report acknowledged the importance of flood-resistance measures at a household-level to supplement more mainstream flood defences provided by the operating authorities. The insurance industry supports the use of flood resistance and mitigation measures (as outlined in the “Planning for floods” report, published by ODPM and jointly funded by ABI) to offer additional protection from flooding.

14. ABI has supplemented this information by providing assessments of the benefits and costs of the most common flood-resilience techniques. For different property types, the study compares the additional cost of installing flood-proofing techniques with the costs saved the next time the property is flooded. Using the tables in the report, homeowners can decide the most suitable flood-protection technique for their property and the relative costs vs. benefits of adopting this approach.

15. Insurers are willing to work with customers in reinstating their homes to flood-resilient standards following damage, provided this is cost-neutral. If the cost of flood-proofing is substantially greater than the standard repair, then insurers will provide funds to cover standard repair at least. There are now some good options for covering the rest. In addition to householders covering the balance from savings, the Council for Mortgage Lenders have confirmed that many of their leading members would be willing to consider extending loans to cover the additional costs of flood-resilient repairs provided the homeowner has sufficient equity. There may also be a need for Government grants (central or local) for those on low income, e.g., proposed grant aid scheme being discussed by Welsh Assembly Government.

16. The public sector could also play a role in encouraging uptake of flood-resilience measures. The Government could strengthen Building Regulations to improve flood-resilience in new build and during major refurbishments. In addition, grant-giving bodies for social housing could require a certain standard of flood protection to be included in any properties qualifying for the grant. For example, the Housing Corporation

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5 http://www.odpm.gov.uk/stellent/groups/odpm_buildingreg/documents/page/odpm_breg_600451.pdf
has already stated that all new homes that it supports in Thames Gateway must achieve a “Very Good” EcoHomes rating. This could be extended in the future to include resilience to flooding and other climate risks.

17. Similarly, there has been widespread debate about the use and take-up of flood-protection products. In principle, insurers acknowledge the potential role of these products, and last year ABI provided co-funding to develop the first “Kitemark” Certification scheme for such products. However, flooding is a complex phenomenon, and a one-size-fits-all approach is not suitable. Certain products would only be effective against particular kinds of flood risk. For example, flood-guards installed around doors could offer significant protection against urban flash-flooding, but will not keep water out of properties subject to flooding over a prolonged period of several days, when water will enter through the floor and brick walls.

18. Therefore, it is essential that a full assessment of the risk of flooding and potential impact is undertaken, either by an official body (e.g., a local authority) or by a properly qualified professional adviser (with professional indemnity cover). It is likely that flood-protection products will form just one of a number of measures that a householder will need to undertake to protect their property. While conditions to achieve reduced premiums are likely be quite stringent, these kinds of flood-protection products could make it easier for an insurer to provide cover to a homeowner living in a flood-risk area, where previously they may not have been able to offer cover. In this respect, these products are analogous to security products that are required for insurance in high-crime areas.

Discussions between the insurance industry and the GLA on flood cover for London

19. As highlighted in this short follow-up paper, there are a number of significant flooding issues in London, in which the insurance industry maintains a strong interest. ABI can confirm that it has had preliminary discussions with officers in the GLA on this issue, but would welcome the opportunity to discuss these issues in more depth. We suggest that the GLA contact Dr Sebastian Catovsky (Policy Adviser, Natural Perils) at the ABI to arrange further discussions.

20. ABI would be keen to discuss how best to protect any new development so that both the flood risk and the aggregation of risk is maintained at an acceptable level and householders have access to a fully-operational competitive insurance market. In addition, ABI would like to explore how planning briefs for these new developments (including forthcoming Spatial Planning Guidance on “Sustainable Construction”) can incorporate resilience to flooding and other elements of climate change, so that new homes, particularly those constructed using non-traditional offsite-manufacturing techniques, are sustainable in every sense of the word.

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