

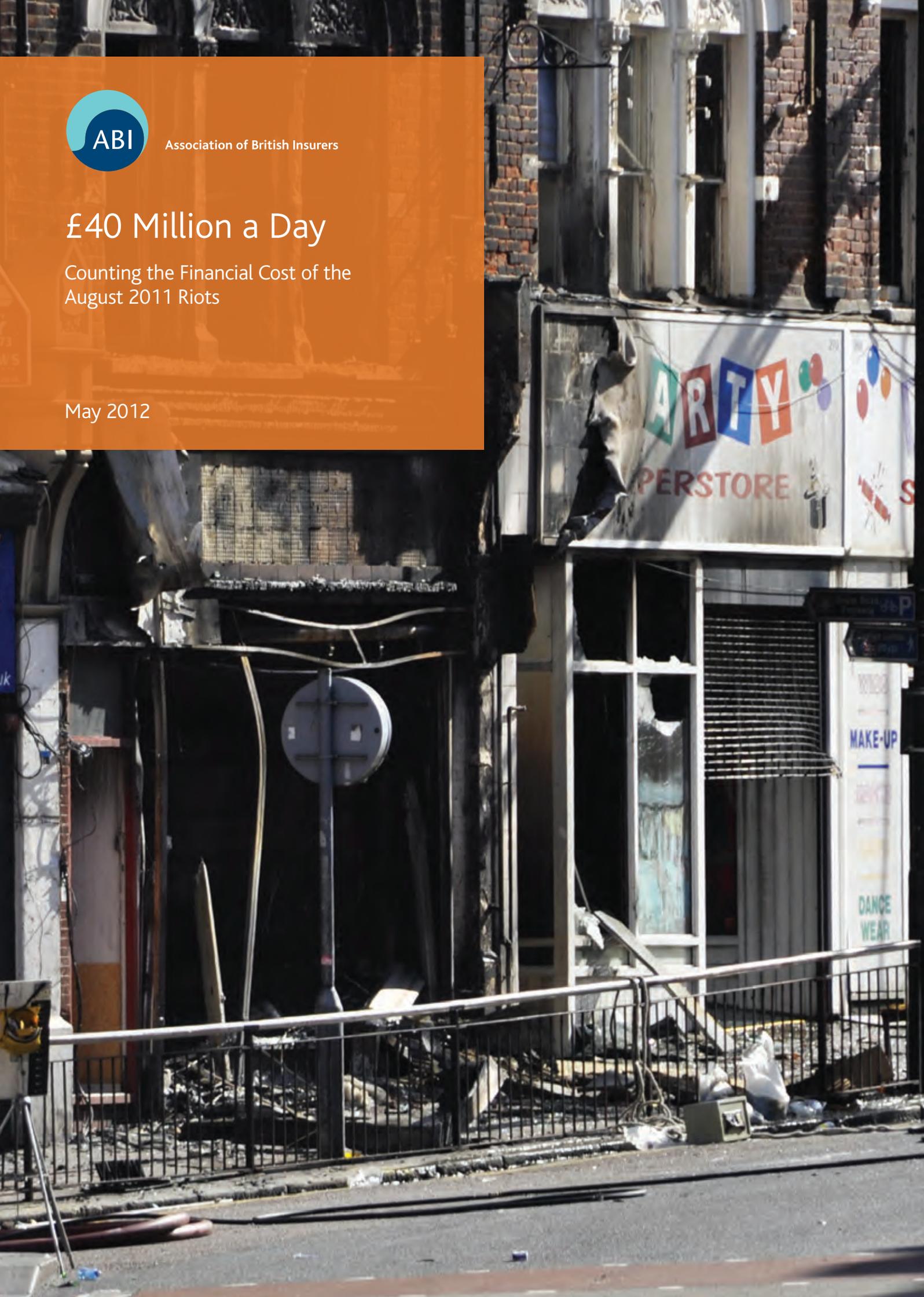


Association of British Insurers

£40 Million a Day

Counting the Financial Cost of the August 2011 Riots

May 2012



Introduction

This publication sets out:

- The role played by insurers in helping customers recover from the widespread riots which gripped many parts of England between 6-10 August 2011.
- The continuing need for the Riot (Damages) Act 1886 to provide compensation to those uninsured and under-insured, but for the Act to be updated to reflect modern day society.





Executive Summary

Between 6-10 August 2011 many cities and towns in England were hit by the worst riots in a generation. An estimated 13,000 -15,000¹ people were involved in the rioting, which cost five people their lives. More than 5,000 crimes were committed, including 1,860 incidents of arson and criminal damage, 1,649 burglaries and 366 attacks on people. Some 66¹ areas experienced riots.

While there has been much debate about the possible underlying causes of the rioting and how to reduce the likelihood of them happening again, two things are indisputable: the scale of the distress and property damage caused, and the important role of insurers in helping businesses and homeowners recover. Insurers responded quickly to help their customers whose homes and businesses had been damaged or destroyed by the riots. Insurers expect to pay out around £200 million.

The riots also highlighted the importance of a little known 126-year old piece of legislation – The Riot (Damages) Act 1886 – which provides compensation to those affected. The Act ensures that riot insurance continues to remain widely available and competitively priced as a standard component of property insurance. Old though it is, the purpose of the Act stands the test of time; arguably it is more relevant today than ever. But, not surprisingly, the 2011 riots highlighted that it needs to be updated, and we urge the Government to learn the lessons of last August to ensure that the Act is updated so that it is fit for purpose in our modern society.

¹ Riots Communities and Victims Panel report 'Five Days in August'



Lessons from the riots

What worked well:

- Despite considerable challenges in accessing some damaged properties due to police restrictions while investigating criminal damage, insurers reacted quickly, helping thousands of customers recover.
- The Government responded speedily in setting out its commitment to provide compensation under the Riot (Damages) Act.
- Swift extension by the Government of the time period for people to claim under the Riot (Damages) Act from 14 to 42 days.
- The Government and the ABI worked together to develop a new claim form and to establish a bureau to process claims from those without insurance.

What did not work so well:

- The lack of a uniform, and in some instances an overly bureaucratic approach, by police authorities to the evidential requirements of whether a 'riot' had occurred in a particular area.
- An often slow and cumbersome approach by police authorities to processing claims under the Riot (Damages) Act, which some people wrongly thought was the fault of their insurance company.
- In some cases, albeit due to unavoidable reasons such as an on-going crime scene, delays in insurers being able to access properties to assess the scale of the damage and repairs needed.
- A number of customers were found to be under-insured, some substantially. This highlights the need for insurers and brokers to stress to customers, particularly small and medium enterprises, the importance of regularly assessing the level and scope of their insurance cover.

How insurers reacted to the riots

Insurers responded quickly to help customers whose homes and businesses had been damaged or destroyed by the riots. Their priority was to ensure that customers could get back in their properties swiftly and, for businesses, to ensure that they could resume trading as soon as possible, whether back in their repaired premises or in temporary alternative accommodation.

Insurers expect to pay out around £200 million to customers in respect of damage to property, vehicles and business interruption losses. Currently 92% of small to medium sized businesses have had their claims settled or received interim payments. Insurers are of course doing everything they can to ensure that any outstanding claims are settled as soon as possible. Delays in being able to access and inspect damaged properties in these exceptional circumstances, and the complex nature of many large commercial claims, have meant that some have taken longer to settle.

Case study

Within 24 hours of being notified of extensive damage to their policyholder's shop in south London, the insurer's representative visited the premises to start processing the claim. Within one week an initial £100,000 was paid to the customer. Alternative trading premises were quickly arranged to enable the business to open their doors again.

Our latest figures using a representative sample of insurers shows that:

- Insurers expect to pay £200 million in compensation to affected customers. This compares to £6 billion which insurers would expect to pay in a typical year for all domestic and commercial property claims.
- In respect of damage to homes, 95% of customers have had their claim settled or the insurer has made a payment towards settling the claim.
- For small and medium sized business customers, 92% have had their claims settled or received an interim payment from their insurer.
- For large commercial customers, 75% have had their claims settled or received interim payments from their insurer.

Case study

An electrical retailer suffered extensive damage, including looting. The insurer made an initial payment of £40,000 to enable goods to be re-stocked and continue trading. A final payment of £36,000 was made before Christmas 2011.





Why a number of claims have not yet been fully settled

Insurers worked around the clock handling claims from their customers. But a number of factors mean that a handful of claims await final settlement. Reasons why some claims have taken longer to settle include:

- A number of sites were designated crime scenes in the immediate aftermath of the riots. This delayed access for both the customer and the insurer to inspect the damage.
- Some damaged buildings required local authorities to make planning decisions about rebuilding, which can take time, especially if the property is historic or listed.
- Some smaller firms had difficulty in verifying the value of their stock that was damaged, destroyed or stolen.
- In a number of cases, insurers are concerned that parts of the claim may be fraudulent, or that the customer has not disclosed to their insurer all relevant facts.
- Business interruption claims are complex. Quantifying business interruption losses takes time as comparisons need to be made with similar trading periods in order to establish the loss of profit. Insurers are making interim payments to customers whose businesses have been affected by the riots.

Insurers are doing everything possible to ensure that any outstanding claims are fully settled as soon as possible. Indeed, there is no financial incentive on an insurer to delay the settlement of a claim.

Retain and Reform – The importance of the Riot (Damages) Act

At first glance it seems easy to dismiss an Act that was passed when Queen Victoria was on the throne as archaic and totally irrelevant in modern society. Yet the intention of the Act – providing compensation to riot victims in respect of damage to their property – remains as relevant and necessary today as when it was enacted 126 years ago. The riots of last August highlighted that, while the Act needs to be updated to ensure that it is fit for the demands of modern day life, its key principles need to be retained.

What does the Act cover?

The Riot (Damages) Act provides for compensation to be paid by the police to individuals and businesses who suffer loss or damage following a riot. There is no limit on the level of compensation payable under the Act.

Insurers are able to claim under the Act, in relation to any claims for property damage they have paid to policyholders.

The Act provides that a claim needs to be submitted within 14 days of the riot taking place (see below).

Why the Riot (Damages) Act should be retained

Despite its age the Act should remain as:

- It provides financial compensation to those who do not have property insurance or who are under-insured to help them recover following a riot. Without the Act, these people could face financial ruin.
- It provides a financial incentive on police authorities to ensure that they provide sufficient operational resources to prevent riots occurring, and to respond to them effectively if they do.
- The protection provided by the Act ensures that cover for riot damage remains an integral part of both domestic and commercial property insurance. Insurers take account of the existence of the Act in their premium calculations and, as a result, customers benefit from lower premiums. If the Act was not in force, the cost of riot cover is likely to increase to a level that some customers might find unaffordable, if they could find cover at all, especially in areas where riots have previously occurred. This could have a serious impact on the local economy, and make regeneration plans difficult to implement.



Why and how the Riot (Damages) Act needs to be updated

Relevant though the intention of the Act is, it needs to be updated to be fit for the needs and demands of the modern world. In short, the claims process needs to be simplified and speeded up.

The August 2011 riots highlighted the shortcomings of the Act in its current form. In particular, the police authorities were slow to process claims for compensation, often imposing unclear and excessive evidential requirements. Much of this reflects the age of the Act, which is why it needs to be updated:

- What constitutes a 'riot' needs to be better defined and accepted across police authorities. For compensation to be paid for damage resulting from a 'riot', the Act requires twelve or more people to be "riotously and tumultuously assembled". In some areas claims made by uninsured or under-insured residents and businesses were declined by police authorities as they did not see them as constituting a 'riot'. We would therefore like to see a common sense approach adopted by police authorities as to what constitutes a 'riot'. This needs to be underpinned by a modern legislative definition, a uniform and flexible approach by police authorities so that those in one area are not treated differently to those in another. Insurers will pay riot damage claims wherever they take place, but they do, along with the uninsured and under-insured, expect a fair, consistent and common sense approach from police authorities.
- The claims process of police authorities needs to be streamlined and standardised. There is no standard approach to riot damage claims, and this led to delays and confusion about the documentary evidence that riot victims needed to provide.
- The time period for claims to be made should be extended. The extension from 14 to 42 days in the wake of the August 2011 riots was welcome. However, given that some people were still unable to submit claims within this time frame, we would like to see the time period for notification of claims extended to 90 days.





Conclusion

The way forward

Riots are thankfully rare in the UK. But as August 2011 showed when they happen the physical, emotional and financial impact on those individuals, businesses and communities affected is devastating. It can take communities many months, even years, to fully recover.

When riots flare up, insurance is crucial in helping the victims recover financially. Insurers remain fully committed to continuing to provide affordably-priced riot insurance cover throughout the UK. The widespread availability and affordability of riot cover has in no small part been possible because of the Riot (Damages) Act. This is why the Government should review and update the Act to ensure it is fit for purpose for the demands and needs of today's society.

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