



Association of British Insurers

SUMMER FLOODS 2007: LEARNING THE LESSONS

November 2007



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FOREWORD

Insurance companies are proud of their response to this year's devastating summer floods in the UK. And rightly so.

Homeowners and businesses in the UK benefit from an almost unique system of flood insurance. In other European countries, protection against the costs of flooding is not a standard part of property insurance, leaving taxpayers to pick up much more of the bill.

This is reflected in the enormous impact of the June and July floods on Britain's insurers. ABI member companies have dealt with around 165,000 claims, and will pay out approximately £3 billion. With the average cost of a property flood claim running at £20,000, it is clear that Britain's homeowners and businesses are benefiting from a unique and extremely valuable service.

The Government's Lessons Learnt Review, under Sir Michael Pitt, is now looking closely at the response to the floods. Evidence from an opinion survey commissioned by the ABI in the flooded areas suggests that residents have a positive view of the response both of their local authority and their insurance company. Asked to rate a number of organisations on a scale of 1-5 (where 1 means very bad and 5 means a very good job) residents rated their Local Authority 3.28 and their insurance company 3.26.

The fact that insurance companies compete against each other, not just on price but on service as well, ensures that the industry as a whole was able to rise to this huge and unprecedented challenge, in many cases going to extraordinary lengths to provide the best possible service.

Our own evidence suggests that some improvements are also possible, and we hope that the Lessons Learnt exercise will help identify these. In this document, we propose that the insurance industry will work closely with the Government, Local Authorities and other organisations such as the National Flood Forum to review and prepare better information for those who are unfortunate enough to be flooded and to provide better generic explanations about the claims process and the timescales involved.

More significantly, statutory services weren't always as joined up as they should have been and the response effort could have been better co-ordinated. More work is needed to identify and protect critical public infrastructure in flood-prone areas - such as the emergency services, schools and water facilities. Some businesses and Local Authorities were under-insured and did not have good emergency plans in place.

But there is much more to this Review than an analysis of the response. We now also need an informed and national debate about the causes of this year's floods and the steps we must take to reduce the risk of further flooding on this scale in future.

The Government announced some additional expenditure for flood defences for the period 2008-2011 in the recent Comprehensive Spending Review (CSR), taking annual spending to £800m by the end of this period. This was a positive first step.

But these increases are limited - the Secretary of State has said they are a minimum - and, inevitably, could not take account of the impact and lessons of this summer's floods. Nor do they meet the costs of the backlog of maintenance work that was recently identified by the NAO.

So we know that more investment is needed on top of the CSR settlement. It is clear, for instance, from the local analysis of flooding in Hull and Gloucester, that major work is required to improve the management of flooding from surface water and poor drainage.

But we cannot say at this stage how much more spending will be required. Nor, consistent with the need to take action as soon as possible, should we decide a final figure before there is agreement about the scale of the task that lies ahead.

Further work and analysis will help us to reach final recommendations. The Government should now lead a thorough and comprehensive assessment of the risk of flooding across the country from all sources, and make sure that this model builds in the future impact of climate change.

The Government should also take this opportunity to set its policy in the context of a 25-year national strategic plan for flood defence and management. Britain is suffering from the fact that so much of the thinking about flood defences has been short-term, based on three-year spending plans. What we actually need is sustained and planned investment over a far-longer period, based on full and public assessment of the risks and costs. In particular, we need to take action to improve the quality of our drainage system and our management of surface water.

To help in this process we put forward a number of other proposals in this document:

- the Climate Change Bill now before Parliament should introduce a statutory objective for the Environment Agency to reduce flood risk and give it greater co-ordinating powers;
- the Environment Agency should publish maps and flood risk assessments showing the relative risks of flooding from all sources across the country, together with forecast maps showing risks levels in decades to come;
- planning policy and Building Regulations must be updated to take full account of the need to reduce levels of risk of flooding.

Insurance companies want to continue to provide sustainable and affordable protection against the consequences of flooding. We work closely with the Government and others to ensure that this can be the case. Our Statement of Principles on Flood Insurance provides vital reassurance for homeowners and businesses around the country. It will now be important for all of us to learn the lessons of this year's floods so that this successful partnership can continue and grow.



A handwritten signature in black ink that reads "Stephen Hadrill". The signature is written in a cursive, flowing style.

Stephen Hadrill
Director General
Association of British Insurers

RECOMMENDATIONS

National targets and leadership supporting local empowerment

The Climate Change Bill should introduce a statutory objective for the Environment Agency to reduce flood risk and make it the national co-ordinator for the identification, assessment and mitigation of flood risk from all sources, including drainage. (Page 7)

The Climate Change Bill should include targets not just for mitigating our impact on the climate, but also for adapting the UK to the changing climate: it should set a series of targets to reduce flood risk across the UK, for example by setting a maximum number of households and businesses at high risk of flooding from all sources, and the Government should be required to report on progress in achieving this target annually. (Page 7)

Identifying and reducing flood risk for today and tomorrow: developing a national strategy

The public has a right to know flood risk across the country and how many homes and businesses are at high risk of flooding both now and in the future: the Environment Agency should commission and make publicly available all maps and flood risk information showing the relative risk of flooding from all sources (including surface water, rising ground water and sewer flooding) across the country as soon as possible and annually thereafter and produce forecast maps showing risk levels in 2020, 2050 and 2100.

The Government should produce a 25-year national strategic plan outlining the policy reforms and investment needed in the fight against flooding to achieve the proposed targets in the Climate Change Bill and allocate expenditure across the key forms of flood defences, such as coastal flooding, inland flooding and drainage, over that time period.

The Government should publish on an annual basis detailed interim plans and report on progress along the 25-year strategic plan, outlining the planned investment in flood defences and drainage systems over the following three-year period and the analysis underpinning these investment and prioritisation decisions.

Planning policy fit for the future

The Government needs to provide more support to the Environment Agency by reviewing and ruling on all major developments where Local Authorities are proposing to ignore the Environment Agency's advice and publishing a summary to explain any major new development that the Government approves in high-risk areas.

The Housing and Regeneration Bill should amend the Building Regulations so that they take greater account of flooding: for any new development or substantial repair work that does take place in high-risk areas, the Building Regulations should require higher standards to reduce the risk of flooding and minimise the impact if flooding does occur; at the same time, the Code for Sustainable Homes should be made mandatory for all developments and put greater emphasis on resilience and reparability. To support the investment this will require in flood resilient products, there should be a VAT reduction on them.

The Government should set up a task force with the construction industry to assess the resilience and reparability of new innovative construction techniques on resilience to floods and other perils.

The Office of Water Services should enable the statutory water and sewerage companies to charge new developments for access to the water and sewerage network to cover the cost of upgrades required in response to the increased demands on it.

Preparing for floods and how to respond

The Government needs to ensure that the country is much better prepared for floods, in particular on how to identify and protect critical infrastructure and other key sites at a local level and how to promote appropriate insurance protection, especially among SMEs: the Department for the Environment, Food and Rural Affairs should lead this work in conjunction with the Cabinet Office and Environment Agency and it should reach down all the way to local resident groups, the frontline in the fight against flooding.

The Government needs to ensure that the emergency services, Local Authorities and the Environment Agency are able to respond to such events even more effectively and that there is one body accountable for overseeing and coordinating the response effort.

The insurance industry is responding to one its biggest ever challenges swiftly and effectively, making contact with most affected customers within 24 hours and taking the lead in helping customers rebuild their homes and communities as quickly as possible. The competition between insurers to provide the best possible service to their customers ensures that the industry as a whole continues to innovate and continually improve its performance and this is reflected in positive customer satisfaction surveys. However, we are constantly striving to improve further. As an industry, we recognise the potential for providing better information to customers about what to do if you are unfortunate enough to be affected by flooding; what the repair process involves and how long it takes; and to ensure that customers are provided with clear and concise key information about their claim. We will discuss with key support groups, such as the National Flood Forum, how to improve the information that is provided to customers on these issues further.

1.0 Introduction

“Floods that occur once in a hundred years on the east coast today may happen once every 10 years by the end of the century.” Jason Lowe, climate scientist, the Met Office

The floods of summer 2007 were the most severe weather-related event that the UK has experienced in decades. In total, around £3bn of this loss was covered by insurance with insurers receiving around 165,000 claims. This is eight times the combined cost of the floods in Carlisle in 2005 and in Boscastle in 2004 and makes it the most costly insured weather event in the UK. The full economic and social cost is likely to be many times higher, with thousands of people having to leave their homes, schools unable to open, companies unable to function and families having to move into temporary accommodation. While the public services provided much of the immediate response to the summer 2007 flooding, the Government funding of post-flooding reinstatement and repair has been limited to £57 million to date.

While the floods were more severe than experienced for decades, it would be wrong to conclude that we can therefore dismiss them as a freak event and for the passage of time to allow us to forget their significance and to continue as normal. Recent ABI polling reveals that two thirds of the residents in the areas hit by this year’s floods believe that they are likely to happen again on the same scale in their area.

Furthermore, the impact of climate change is here and happening now and affecting many countries around the world, including the UK. This is demonstrated by the increasing frequency of major weather events. Although it is not possible to directly attribute any one event to climate change, the flooding in the UK during the summer of 2007 typify the increase in such events around the world. For example, as a result of climate change, ABI research shows that it is highly likely that sea levels in the North Sea will rise by 0.4m by the end of the century, and possibly as early as 2040. This would increase the number of properties at risk of flooding in eastern England by 50%¹.

The UK needs to act now to prepare for the impact of climate change. No action is not an option: this will simply defer and increase the cost to the next generation, and lead to unnecessary economic and social cost for those affected by climate change in the interim. As the Government’s Stern Review on the Economics of Climate Change concluded: “if we don’t act, the overall costs and risks of climate change will be the equivalent of losing at least 5% of global GDP each year. If a wider range of risks and impacts is taken into account, the estimates of damage rise to 20% or more”².

Given the scale of this challenge, the Government needs to engage the public directly to build on the public’s support for the action and expenditure needed to protect the country from flooding. The Government needs to outline publicly and in detail both the risks that we already face and how these risks will increase in the future as a result of climate change, and to secure support and participation in a concerted and long-term action plan to reduce this risk. An ABI survey into public attitudes and climate change reveals that the public would

¹ ABI, Coastal flood risk report, November 2006

² Stern Review on the Economics of Climate Change, October 2006

welcome such a national debate: 84% of people are looking to the Government to provide leadership on how to prepare the country for the impact of climate change³.

In addition, there must be a strong partnership between the private and public sectors to rise to this challenge. The insurance industry wants to ensure that there continues to be a sustainable, accessible and affordable property insurance market in the UK that continues to offer customers insurance for the consequences of flooding. The UK market is unique in providing flood cover as a standard part of a typical property insurance product on a voluntary basis and without financial support from government: it is available to all but a handful of customers in the UK. This is in stark contrast to many other markets. Across the UK, over 90% of households have buildings insurance and over 75% of UK households have contents insurance.

In 2002, the insurance industry agreed a statement of principles on flood cover with the Government. The insurance industry agreed to continue to provide flood cover as a standard feature of household and small business policies where the risk of flooding was no greater than one in 75 years. In return, the Government agreed to a set of actions intended to minimise the number of households and small businesses that would not be eligible for cover under this commitment. The insurance industry is currently reviewing the statement with the Government: the key aim for the insurance industry is to ensure that the Government commits to taking actions that will ensure that only a minimal number of households and small businesses are not able to continue to access flood cover. Otherwise, the Government will be denying people access to affordable insurance and are likely to face more demands to cover the cost of flooding from public funds.

The floods in summer 2007 have demonstrated where further action is needed. The Government now needs to develop a long-term strategy for the fight against flooding. Following an industry-wide review into what lessons we should learn from the floods, the ABI believes action is needed in the following four areas:

- national targets and leadership supporting local empowerment;
- identifying and reducing flood risk for today and tomorrow;
- planning policy fit for the future;
- preparing for floods and how to respond.

³ YouGov survey for ABI, based on 2012 respondents. August 2007

2.0 National targets and leadership supporting local empowerment

Responsibility for surface water flooding is currently “very, very unclear”.
Barbara Young, Chief Executive, Environment Agency

The ABI proposes that:

- the Climate Change Bill should introduce a statutory objective for the Environment Agency to reduce flood risk and make it the national co-ordinator for the identification, assessment and mitigation of flood risk from all sources, including drainage;
- the Climate Change Bill should include targets not just for mitigating our impact on the climate, but also for adapting the UK to the changing climate: it should set a series of targets to reduce flood risk across the UK, for example by setting a maximum number of households and businesses at high risk of flooding from all sources, and the Government should be required to report on progress in achieving this target annually.

The floods in summer 2007 demonstrated the need for flood risk management to be properly coordinated, incorporating all sources of flooding. For example, an independent review into the floods in Hull concluded that the city council, Environment Agency and Yorkshire Water had all failed to work together to identify and reduce flood risk and failed to allow each other to influence their own obligations. The review describes this as a ‘recurring theme of inadequate consultation, cooperation and unity between the agencies’. The independent review into the floods in Gloucester concluded that the current system is ‘not effective’ and a single agency with overall responsibility would make it simpler for people to know who to contact and who was responsible for specific problems.

The current piecemeal approach to the fight against flooding cannot continue. There are currently too many organisations each with too many competing priorities to be able to give the fight against flooding the focus that it deserves: no single body is charged with preventing and managing flooding even though drains, sewers and rivers all contribute to flood risks. For example, river and coastline flooding is under the responsibility of the Environment Agency; drainage is in the hands of Local Authorities; water on main roads is the remit of the Highways Agency and Local Authorities; and private water companies are responsible for sewer flooding. Unless clear leadership is provided, there will continue to be contradictions in policy.

This is a particular problem in urban areas where a complex interaction of drainage systems exists and there is widespread difficulty in identifying responsibility for dealing with flood issues. Much of the flooding, especially in Yorkshire and Humberside, was flash flooding caused by unusually heavy rainfall combined with inadequate and/or ill-maintained drainage systems. After noting the heavy rain, residents in the areas hit by the summer floods believe that poor drainage was the most significant factor in causing the floods. In a typical year, around 6,000 properties are flooded internally by sewage. In large conurbations, it is

estimated that overloaded sewers account for around 50% of flooding problems due to age of sewerage system and high housing density.

Previous “lessons learnt” reviews led to the development of a comprehensive Government strategy, Making Space for Water, in 2005. The ABI welcomed this strategy as setting out an effective framework for rising to the challenges faced. The strategy identified a strong need for a holistic, joined-up and integrated approach for dealing with all forms of flooding and proposed to give the Environment Agency an ‘enhanced strategic overview for all flood and coastal erosion risk management issues’. However, this has not happened.

While one national body needs to be given overall responsibility for the fight against flooding, this should not mean unnecessary centralisation or national control. Instead, this national body needs to lead analysis and research to assess flood risk and to lead work in partnership with the other necessary agencies to develop a holistic approach and national framework to reduce this risk. In particular, it is important that this national body works closely with regional Government Offices, the Office of Water Services, Local Authorities and resident groups to ensure that the national framework reflects local needs and can be delivered locally, right through to involving resident associations in being the front-line in the fight against flooding.

The ABI welcomes the Government’s approach to set clear, legally binding targets to reduce carbon dioxide emissions. The Government needs to take a similar approach to reducing the amount of properties and businesses exposed to flooding. This reflects the Stern’s report conclusion that adapting to climate change is a similarly important national challenge.

3.0 Identifying and reducing flood risk for today and tomorrow: developing a national strategy

“For every £1 further we can spend, we would be able to save the country £6 in repair costs” Mark Tinnion, regional flood risk manager, Environment Agency

The ABI proposes that:

- the public has a right to know flood risk across the country and how many homes and businesses are at high risk of flooding both now and in the future: the Environment Agency should commission and make publicly available all maps and flood risk information showing the relative risk of flooding from all sources (including surface water, rising ground water and sewer flooding) across the country as soon as possible and annually thereafter and produce forecast maps showing risk levels in 2020, 2050 and 2100;
- the Government should produce a 25-year national strategic plan outlining the policy reforms and investment needed in the fight against flooding to achieve the proposed targets in the Climate Change Bill and allocate expenditure across the key forms of flood defences, such as coastal flooding, inland flooding and drainage, over that time period;
- the Government should publish on an annual basis detailed interim plans and report on progress along the 25-year strategic plan, outlining the planned investment in flood defences and drainage systems over the following three-year period and the analysis underpinning these investment and prioritisation decisions.

Given the importance of the challenge and the long-term nature of the investment decisions required, the Government needs to develop a long-term strategic plan. The current approach to flood defence is inherently short term. Money is found in three-year tranches even though some projects have much longer lead times and the capital investment has a long lifespan. At the same time, climate change is eroding the level of defence provided by new projects at such a rate that we need a new approach to flood defence investment.

The first vital step is to undertake a comprehensive assessment of the risk of flooding from all key sources across the country. This should have happened some time ago and it is now over due. The overall risk assessment needs to include an assessment against current risk and also assessments for future years, to take into account the impact of climate change and to reflect the long lifespan of investments in the fight against flooding.

As the independent review into the floods in Hull concluded, the challenge of identifying and understanding the risk posed by sewers that can easily be overwhelmed by heavy rain has been neglected for too long and could affect all conurbations. In order to undertake this risk

assessment, the Government needs to work with the Office of Water Services to identify and publish the location, ownership and state of repair of the statutory water and sewerage companies' drainage systems and produce measurement of properties at risk.

The information about flood risk and flood defences should be published and made publicly available free of charge to everyone. People have a right to know about this risk, not least because it may affect the value of people's most important asset and their ability to insure it: their home. It will also enable people to take informed decisions about investment in flood resilience measures for their own properties and to get involved in the national debate about how to tackle the fight against flooding. Insurers also need to have access to this data to enable them to price fairly for different risk levels.

Having completed a risk assessment, the Government should then conduct a 'gap analysis' to identify where flood defences and drainage systems currently fall or are forecast to fall below the standard required to meet the proposed targets in the Climate Change Bill. The Government should then develop the necessary policies to close the gap. Key issues to include are:

- assessing how to define 'high risk' and what level of risk is appropriate in different locations, especially in the light of forecast climate changes. For example, one in 100 year river defences currently sit alongside one in 30 year drainage systems;
- an outline of the investment needed in different forms of flood prevention over the next 25 years to deliver the targets, broken down to identify investment in coastal flooding, inland flooding, drainage development and other. The recent Comprehensive Spending Review announcement that investment in flood defences will increase to £800m by 2010-11 is a positive first step but more will be needed both immediately and in the future, particularly as the National Audit Office has identified that £150m is needed to address backlogs and more will be needed as the lessons learnt from the summer floods are incorporated into government policy;
- identify how the investment needed will be funded, including from general taxation, local taxation and water bills. The Office of Water Services needs to reflect the requirement for increased investment by water companies in drainage systems in their forthcoming review of water charges and ensure that the water companies deliver the necessary upgrades. The Government should also consider to what extent planning gain supplements should apply to flood defences;
- assessing whether the Office of Water Services has sufficient powers to require water companies to ensure that their drainage systems provide sufficient defence against flooding and consider the role of mandatory minimum standards for flood protection in drainage systems;
- how to ensure that the key organisations that impact upon flood risk are encouraged to reduce their impact. For example, the Highways Agency and Local Authorities currently focus on removing water from their roads as soon as possible and do not have to take into account the impact this has on flood risk in other areas. If they had to

contribute towards the cost of flood management directly, they would have more of an incentive to take this into account and take a more strategic view to reducing flood risk;

- research to model the inter-action of drainage flooding and inland flooding to assess if minimum standards need to be exceeded at key 'pinch points': this information then needs to be integrated into the overall flood risk map;
- proposals to reform the Common Agricultural Policy so that farmers can be funded for contributions to water catchment management and attenuation and temporary storage measures for rivers and urban drainage systems. The objective should be to reduce peak run-off and enable gradual release of rainwater. This would enhance the effectiveness of engineered solutions elsewhere, currently being eroded by climate change.

The Government should publish interim reports annually setting out progress towards its long-term targets. In particular, this should include details about the Environment Agency's investment plans, so that all stakeholders can ascertain which areas will benefit from schemes in the future, the standards of protection these areas will benefit from and when the schemes will be complete.

4.0 Planning policy fit for the future

“This past year, local planning authorities granted planning permission for 13 major developments against our advice and this is unacceptable. If these major developments go ahead, they could put life and property at risk”, Barbara Young, Chief Executive, Environment Agency

The ABI proposes that:

- the Government needs to provide more support to the Environment Agency by reviewing and ruling on all major developments where Local Authorities are proposing to ignore the Environment Agency’s advice and publishing a summary to explain any major new development that the Government approves in high-risk areas;
- the Housing and Regeneration Bill should amend the Building Regulations so that they take greater account of flooding: for any new development or substantial repair work that does take place in high-risk areas, the Building Regulations should require higher standards to reduce the risk of flooding and minimise the impact if flooding does occur; at the same time, the Code for Sustainable Homes should be made mandatory for all developments and put greater emphasis on resilience and reparability. To support the investment this will require in flood resilient products, there should be a VAT reduction on them;
- the Government should set up a task force with the construction industry to assess the resilience and reparability of new innovative construction techniques on resilience to floods and other perils;
- the Office of Water Services should enable the statutory water and sewerage companies to charge new developments for access to the water and sewerage network to cover the cost of upgrades required in response to the increased demands on it.

The most efficient way to avoid creating new flood risk is to stop building in high flood risk areas. If development is needed in high flood risk areas, higher minimum standards should be applied to the building to design-in features to protect it from flooding and minimise the impact of flooding: applying the routine national standards is not sufficient in high-risk areas.

In 2006, the ABI welcomed the introduction of the new Policy Planning Statement 25 (PPS25) that was intended to strengthen and clarify policy on developments and flood risk. The new policy took effect from October 2006 and requires planners and developers to assess the risk of local flooding due to overland flow or run-off exceeding the capacity of drainage systems during prolonged or intense rainfall in both the development and surrounding land. In particular, the ABI supported making the Environment Agency a statutory consultee on all planning applications in areas where there is a risk of flooding and

that Local Authorities must now consult the Environment Agency before making any new decisions on development.

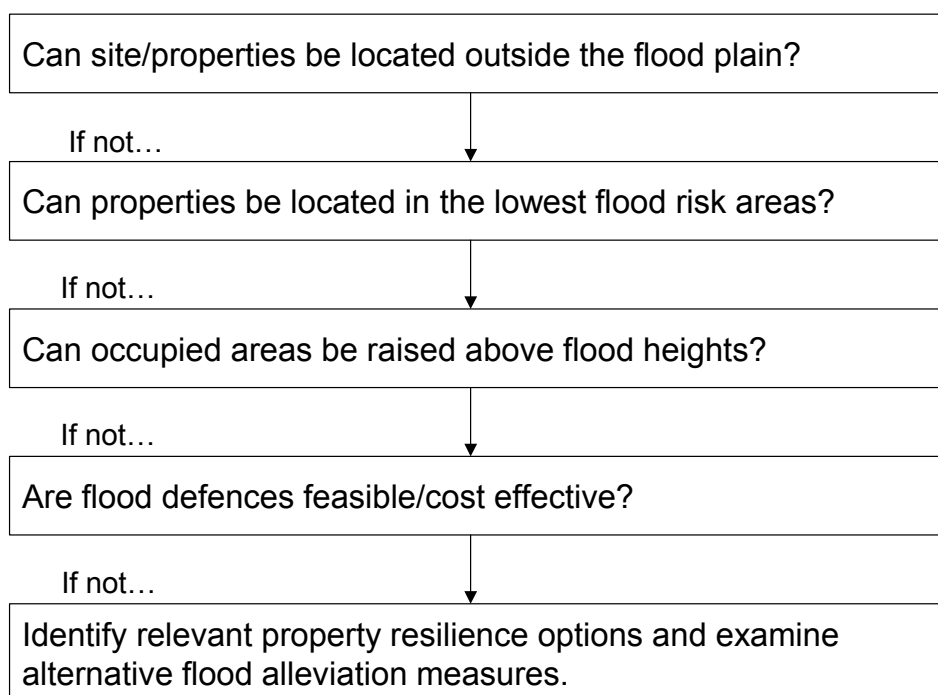
However, the latest evidence suggests that this new policy does not go far enough. Local planning authorities in England gave permission for 13 major developments to go ahead during 2006/07 against Environment Agency advice on flood risk⁴. The Environment Agency opposed them because they put lives 'at risk'. The developments include bungalows, houses, a holiday caravan site and infrastructure developments, such as access roads. Seven of the projects, which were approved, were in areas of the 'highest flood risk'.

The Government needs to provide more support for the Environment Agency by reviewing and ruling on all major developments where Local Authorities are proposing to ignore the Environment Agency's advice. The Government should then publish a summary for any developments that it subsequently approves outlining the rationale behind this. Overtime, this will ensure that more attention is paid to the Environment Agency's views and that only critical developments take place in high-risk areas and only if there are no alternative options.

In parallel, to facilitate informed local decisions at a local level and to minimise the need for Government intervention, the Environment Agency should provide support to Local Authorities to help them ensure that their planning officials have the right tools and expertise to make accurate judgements on flood risk. The Environment Agency should also ensure that water companies are consulted on new developments, given their potential impact on drainage and the additional pressure on the system.

⁴Environment Agency Press Note: Developments given the go ahead against flood risk advice, 8 November 2007

Figure 1 Hierarchy of choices for adaptation



Source: ABI

As recommended by the independent review into the flooding in Hull, higher minimum standards in Building Regulations should apply to buildings or redevelopments that do take place in high risk areas. This would address vulnerabilities to flood damage by strengthening building codes, infrastructure performance and technological resilience. While the new Code for Sustainable Homes goes some way to tackling this issue, it is particularly insufficient for developments in high-risk areas. For example, it should give resilience features equal weighting with energy and water efficiency in planning decisions and building standards; it should be made a statutory requirement; and its rating system should be more transparent and robust. To support the investment that this will require in flood resilient products, there should be a VAT reduction on them;

In recent years, there has been a rapid growth in the number of new homes and commercial properties erected "offsite" using innovative methods of construction involving timber frames, light steel frames and other modern techniques and materials: 25% of new homes now use these techniques. As it is essential that the homes and commercial properties being built today are resilient and are built to last, it is important to understand how these homes and commercial properties will stand up to flooding, storm damage and burst pipes, among other things. However, information on this is currently sketchy. The ABI will shortly publish research that indicates that, for example, it may cost around 10% more to repair steel-framed single homes after floods and storms and that it could cost twice as much to repair factory-finished modules after a flood. The ABI therefore calls for the Government to set up a task force with the construction industry to understand fully the implications of these new techniques both in terms of their ability to withstand natural events and their cost of repair after such events.

New build developments do not currently have to contribute towards the wider cost of upgrading drainage and sewerage systems as a result of the increase demand that they place on the water system. This leads to new developments being cross-subsidised by other water customers and to under-investment in this crucial infrastructure. The Office of Water Services should therefore enable the statutory water and sewerage companies to charge new developments for access to the water and sewerage network to cover the cost of upgrades required in response to the increased demands on it. Drainage systems for new developments should also be designed to cope with higher levels of rainfall than conventional systems to allow for the impact of climate change.

5.0 Preparing for floods and how to respond

At the time of the floods, the Chief Fire Officers' Association attacked the number of bodies involved as "institutional confusion" that hampered the clean-up operation

The ABI proposes that:

- the Government needs to ensure that the country is much better prepared for floods, in particular on how to identify and protect critical infrastructure and other key sites at a local level and how to promote appropriate insurance protection, especially among SMEs: the Department for the Environment, Food and Rural Affairs should lead this work in conjunction with the Cabinet Office and Environment Agency and it should reach down all the way to local resident groups, the frontline in the fight against flooding;
- the Government needs to ensure that the emergency services, Local Authorities and the Environment Agency are able to respond to such events even more effectively and that there is one body accountable for overseeing and coordinating the response effort;
- the insurance industry is responding to one its biggest ever challenges swiftly and effectively, making contact with most affected customers within 24 hours and taking the lead in helping customers rebuild their homes and communities as quickly as possible. The competition between insurers to provide the best possible service to their customers ensures that the industry as a whole continues to innovate and continually improve its performance and this is reflected in positive customer satisfaction surveys. However, we are constantly striving to improve further. As an industry, we recognise the potential for providing better information to customers about what to do if you are unfortunate enough to be affected by flooding; what the repair process involves and how long it takes; and to ensure that customers are provided with clear and concise key information about their claim. We will discuss with key support groups, such as the National Flood Forum, how to improve the information that is provided to customers on these issues further.

5.1 Reducing and insuring risk at a local level

As recent floods in Boscastle, Carlisle, Thirsk in North Yorkshire and this summer demonstrate, these events are happening more frequently and we need to ensure that the country is better prepared at minimising risk at a local level.

During the summer floods, it became clear that critical infrastructure was woefully exposed, despite the lessons of previous flood events. This resulted in social and economic impacts far beyond directly affected areas. For example, 42,000 people were left without power for 24 hours and up to 600,000 people came within a few inches of a mass blackout after

flooding caused the Castlemeads electricity substation to be switched off and nearly caused the Walham electricity substation to be closed in Gloucestershire. When water flooded the Mythe Treatment Plant in Tewkesbury, 140,000 homes across the region were left without running water for up to two weeks. Around 13,000 homes were without electricity in Sheffield. Humberside Police Headquarters was flooded, along with numerous schools, leisure centres and key transport routes. Indeed, some of the leisure centres that were flooded were themselves intended as evacuation centres. As the independent review into the flooding in Hull concluded, the fact that 91 out of 99 schools in Hull were affected had a large social and economic effect, forcing parents to take time off work, lose earning and in some cases lose their jobs. Furthermore, there was no list of key strategic locations and infrastructure identified as important to defend.

Previous ABI research has shown that, on the east coast, 15% of fire and ambulance stations, 40% of electricity sub-stations and 15% of petrol stations are at risk of flooding in a storm surge⁵. Furthermore, the Environment Agency has identified nearly 5,000 infrastructure sites in England and Wales where the flood risk is greater than one in 75 years. This includes 2,215 power stations and sub-stations, 737 sewage and water treatment works, 680 health centres and surgeries and 401 schools. While this does not take account of site-specific flood resilience measures, it demonstrates how much critical infrastructure is potentially at high risk. Stronger requirements are therefore needed for utility companies to safeguard their essential facilities.

It also became clear during the summer floods that some businesses, Local Authorities and households could do more to reduce their own individual risk exposure and to insure themselves for any remaining exposure rather than expose themselves to unnecessary financial risk.

Many businesses, particularly small- and medium-sized enterprises, did not have adequate flooding or business interruption insurance in place prior to the floods. SMEs account for over 50% of national income and employment. 69% have no contingency plan to cope with serious events that might affect their business and 41% have no business continuity or loss of earning insurance⁶. There is much the insurance industry itself can do to tackle this but Regional Development Agencies and other public agencies which promote business and enterprise also have an important role in ensuring business takes responsibility for its own risks and does not look for taxpayer support where it has failed to take adequate precautions.

We are pleased to be working closely with the Department for Business, Enterprise and Regulatory Reform to improve the information available to businesses on how to consider their risks and insurance needs and how to plan appropriately to deal with the effects of flooding and support the improved guidance available on 'Protecting your business from flooding'. The ABI is also working with Business Link and employer organisations to produce more generic information for SMEs about how to assess their insurance needs and we plan to publish more guidance shortly.

⁵ Coastal Flood Risk – Thinking for tomorrow, acting today. Summary Report. ABI, November 2006

⁶ AXA research

Similarly, Local Authorities need to ensure that their own contingency plans deal realistically with flood risk and that their insurable risks are covered adequately. For example, Hull City Council did not insure most of its buildings against flooding. Neither the Bellwin scheme nor the EU Solidarity Fund should be used to pass insurable costs onto taxpayers.

The Government, in particular through the Environment Agency, can play a role in helping these organisations and people to identify how to do protect themselves. For example, 57% of people felt that they should play a part in protecting the UK from the effects of climate change and 61% were looking to the Environment Agency to advise them how best to do so⁷.

Key policies to improve the country's preparedness for flooding should therefore include:

- an urgent risk assessment to identify those properties, businesses and critical infrastructure at high risk of flooding and an assessment of pro-active measures to ensure the most vulnerable people and social and economic functions are given additional protection;
- Local Authorities in high-risk areas should work with local resident groups to spread information about how best to protect their properties from flooding and action to take in the event of flooding;
- the Government should assess how best to encourage households and businesses to invest in flood resilience measures and work with the insurance industry to promote the value of property and business interruption insurance;
- the ABI should continue to work with its members to provide further customer information on how to calculate the level of contents insurance required.

5.2 Delivering an effective emergency response to floods

The summer floods highlighted both the improvements already made in the arrangements for large-scale emergencies and the potential for even further improvement. There was still too much learning-on-the-job by dedicated professionals rather than pre-planned responses moving into action. The provisions of the Civil Contingencies Act 2004 need to be reviewed and lessons learnt in light of the floods.

On behalf of the insurance industry, the ABI communicated with emergency services through the silver and gold command structure and liaised with Local Authorities to provide flood insurance advice throughout the floods and the recovery process.

Key policies to improve the country's response to flooding and other similar major events should include:

- clarification on the respective roles of response agencies (fire, police, local authorities, Environment Agency and utilities companies);

⁷ YouGov survey for ABI, based on 2012 respondents August 2007

- guidance for Local Authorities on how to respond to floods and better co-ordination of responses at regional or national level, including regional rescue service control centres. In particular, steps should be taken to integrate local community associations into emergency planning and practice for floods wherever possible;
- implementation of protocols to bring in the assistance of non-statutory partners⁸;
- best-practice learning should be encouraged across Local Authorities and Regional bodies;
- the Environment Agency's Flood Warning System should be changed from an 'opt-in' to an 'opt-out' approach for properties in high risk areas in order to further increase the uptake of this service.

5.3 The insurance industry's response to the floods

The summer floods presented the insurance industry with one of its biggest ever challenges: the scale of the flooding across the UK was massive, exceeding all events since flood cover was introduced as a standard feature of property policies in the early 1960s. The industry has responded to around 165,000 claims, with around 120,000 household claims, 27,000 commercial claims and 18,000 motor claims. The cost to insurers will be around £3 billion, the largest natural catastrophe insurance loss ever recorded in the UK. This is equivalent to four years normal claims experience.

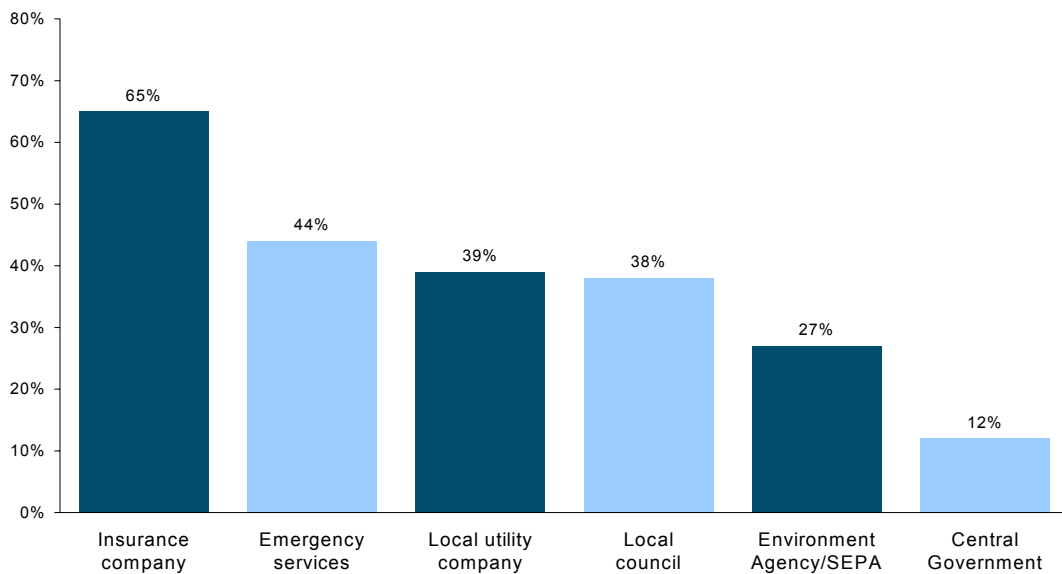
In the UK, the insurance industry plays a key role in helping customers and communities rebuild their homes and schools, to restart their businesses and to replace their damaged fixtures and fittings and possessions. Our members often project manage this process for customers, for example providing alternative accommodation, arranging appropriate builders and decorators and sourcing replacement white goods. This is a major undertaking and enables customers to continue their lives as much as possible during this process. This is in contrast to some countries where the norm is for cash payments to be made and customers are left to oversee the repair of their homes themselves, causing more distress and inconvenience.

The pro-active role that the insurance industry plays in overseeing the repair and replacement process is welcomed by the industry's customers. For example, recent research commissioned by the ABI shows that SMEs that have experienced bad weather claims place the insurance industry near the top of the reputational stakes in helping the business to recover: 65% of businesses which had suffered flooding said that their insurers had helped compared with only 44% of businesses who said that the emergency services were helpful⁹.

⁸ ACPO/CFOA/ABI/CILALGA protocol for dealing with emergencies, launched. 20 September 2007

⁹ ABI: Insuring our future climate: thinking for tomorrow, today. September 2007

Figure 2 Views of SMEs on where they received most help after flooding



Source: ABI

As soon as the scale of the summer floods became apparent, insurers implemented their plans to cope with major events. Thousands of additional staff were brought in from across the UK and overseas to handle claims calls and visit customers' premises. For example:

- many insurers established dedicated flood teams to respond to the influx of claims;
- contact centres for customers wanting advice and to make claims were strengthened with more staff and longer opening hours;
- loss adjustors were rapidly deployed to assess damage and provide assistance to customers on the ground, often agreeing emergency accommodation payments for customers until more permanent alternative accommodation could be found. Loss adjustors contacted most customers within 24 hours and offered visits to everyone that needed one within two weeks of notification of claim;
- insurers located and provided alternative accommodation to customers that needed it and had the appropriate cover;
- insurers implemented their plans to get disaster recovery firms on hand immediately and these firms started contacting customers within hours to determine the immediate action required and to commence the recovery operation and to begin to dry out properties with dryers and dehumidifiers. To facilitate rapid progress, specialists and additional drying equipment was brought in from across Europe and the world. Rapid deployment of additional equipment and specialist drying and decontamination services has ensured that work started as early as possible;
- insurers put reputable building firms on alert to be ready to repair properties quickly and to high standards as soon as conditions allowed. Mobilisation of insurer repair

networks has ensured the availability of the additional resources necessary to deal with such widespread damage, together with quality and financial assurance measures needed for extensive and complex reinstatement.

The insurance industry recognised that customers want to be given as much information as possible as soon as possible, for promises to be kept, and to be treated as individuals. During the summer floods, insurers made every effort to meet customers' expectations and requirements. For example, insurers:

- set up or participated in local 'drop-in' centres at key affected locations;
- made outbound calls to their customers in affected postcodes to check if their customers needed help or assistance before the customer had even notified a claim;
- provided customers with one dedicated contact person for their claim and regularly contacted customers to check they are happy with the progress being made;
- provided interim payments as quickly as physically possible;
- were flexible around policy limits for alternative accommodation;
- provided several options for alternative accommodation;
- enabled customers to appoint their own builders where desired without requiring a range of competitive estimates.

However, while the insurance industry mobilised quickly to respond to the size of the challenge, the nature of the repairs required in many cases will take time. Repairing a typical house with severe flood damage can take 12 to 18 months. Reinstatement of a building can be split into three stages:

- clearance and cleaning: before any other work can be done, the silt and other detritus left by floods must be removed and the house made safe by disinfecting and checking gas and electricity supplies and appliances. Clearance will involve removing damaged and wet furnishings, fitting and plaster and woodwork. This is necessary to allow proper drying out. This process alone can take around one month;
- decontaminating and drying out: even quite short-lived flooding penetrates deep into the fabric of the property. This deep-seated moisture can take a long time to move back through the walls and floors, even if the surface appears dry. Specialist drying companies manage the process and normally certify that the property is dry enough for reinstatement to start. This can take several months after clearance and cleaning has been completed after severe flooding;
- repair and reconstruction work: the methods and materials used for flood damaged buildings are very dependant on the age and construction of the property and this can in itself affect the length of the repair phase. Often the insurer's own repair network will undertake the repair or alternatively local contractors may be used. Repair work may

often not be able to start until several months after the flooding and the time repairs take depend on the nature of the building and the damage done.

The insurance industry is making good progress in responding to the huge number of claims. For example, almost 25% of people who had to leave their homes after the floods are now back in their homes and we estimate that 40% will be back in their homes by Christmas. Unfortunately, however, given the time it takes to repair homes, we estimate that around 8,500 households will not be able to return home by Christmas. Insurers are doing everything possible to ensure as many people are back in their homes as soon as possible.

By the end of August, many less complex claims had been completed and paid in full, representing 20% of household and 10% of commercial claims. By the end of September, those figures had risen to 25% and 15% respectively. By mid-November, insurers had completed and paid in full over 40% of household claims and over 25% of commercial claims. In total, insurers had paid out £750m by mid-November.

Insurers are paying great attention to customer feedback. Customer satisfaction levels have been high across the industry. A recent ABI survey of people whose local area had been affected by the summer floods confirmed that the public has a positive view of how the insurance industry responded to the floods. In particular, the overall view of those people who were unfortunate enough to sustain flood damage in their home was particularly positive towards their insurance company. However, the industry is keen to improve performance still further. In particular, we propose to:

- work with the Government, Local Authorities and organisations like the National Flood Forum to prepare better information about what to do if you are unfortunate enough to be affected by flooding and to ensure that this information is communicated across the local media of any affected areas in the future;
- prepare more generic information for customers about the flood claims process and the timescales involved in repairing flooded homes and businesses to explain why it takes time and the consequences of rushed repairs, working with the National Flood Forum and other community groups;
- agree common minimum information that insurers should provide to flood victims about their claim and encourage its adoption across the insurance industry. This could include basic information such as a contact name and telephone number within the customer's insurance company to more detailed information such as that insurer's proposed indicative timescale and process map for that claim. We propose to discuss this in more detail with support groups such as the National Flood Forum to get their views on the key information that customers want as early as possible in the process.

While the performance of individual insurers will inevitably vary, the competition between insurers to provide the best possible service to their customers ensures that the industry as a whole continues to innovate and continually improve its performance.

6.0 Conclusion

The floods that took place in the summer of 2007 must serve as a final wake-up call for the Government. Deferring action now will simply increase the cost of action later, and cause immense personal suffering in the interim.

The time has come for the Government to professionalise its approach to the fight against floods and to rise to the challenge in the same way that it has in other key areas:

- the Government needs to set clear targets for reducing flood risk and undertake institutional reform so that the Environment Agency has overarching responsibility for coordinating the fight against all forms of flooding and ensuring that the many bodies involved in identifying and reducing the risk work together effectively;
- the Government needs to develop a long-term strategy that identifies publicly the risk of flooding now and in the future, identifies what is an acceptable risk level, and puts forward a comprehensive package of policies to close the gap. In particular, the strategy needs to incorporate the problems of surface-water, rising ground water and sewer flooding more fully into the policy-making process as the summer floods revealed both the size of this problem and that it has been woefully neglected to date. The strategy must also include a clear investment commitment for the long term and an outline of how this investment will be allocated to the various spending areas, such as coastal flooding, inland flooding and drainage;
- the Government must do more to challenge new developments in high-risk areas.

Alongside this long-term strategy to reduce the risk of flooding, the Government needs to ensure that the country is better prepared to cope with the impact of flooding when it does occur. In particular, it needs to ensure that critical infrastructure at high risk of flooding is identified and adequately protected to prevent flooding having an impact far beyond its water-trail. It also needs to work with the insurance industry to encourage businesses and households to insure themselves appropriately so that the long-term impact of flooding on our economic and social fabric is minimised.

Forthcoming legislation – in particular the Climate Change Bill and Housing and Regeneration Bill – provides the Government and Parliament with the opportunity to put in place the legislative framework necessary to rise to the challenge:

- the Climate Change Bill should introduce a new statutory objective for the Environment Agency to reduce flood risk and make it the national co-ordinator for the identification, assessment and mitigation of flood risk from all sources, including drainage. It should also set targets not just for mitigating our impact on the climate, but also for adapting the UK to the changing climate: it should set a series of targets to reduce flood risk across the UK, for example by setting a maximum number of households and businesses at high risk of flooding from all sources, and the Government should be required to report on progress in achieving this target annually;

- the Housing and Regeneration Bill should introduce higher standards in Building Regulations for any new development or substantial repair work that does take place in high-risk areas to reduce the risk of flooding and minimise the impact if flooding does occur and the Code for Sustainable Homes should be made mandatory for all developments and put greater emphasis on resilience and reparability.

The ABI is currently reviewing the Statement of Principles with the Government. The insurance industry wants to ensure as many people as possible have access to affordable insurance. In the discussions over the review of the principles, we will be seeking a commitment from the Government to implement the proposals outlined in this paper and working with them to identify the level of investment needed to ensure the UK is defended appropriately in the fight against flooding.

Association of British Insurers
51 Gresham Street
London EC2V 7HQ
020 7600 3333

www.abi.org.uk