



Association of British Insurers

The future of flood insurance in Scotland

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Agenda

- Why is flood risk getting worse?
- How does this impact flood insurance?
- How can we work together most effectively?

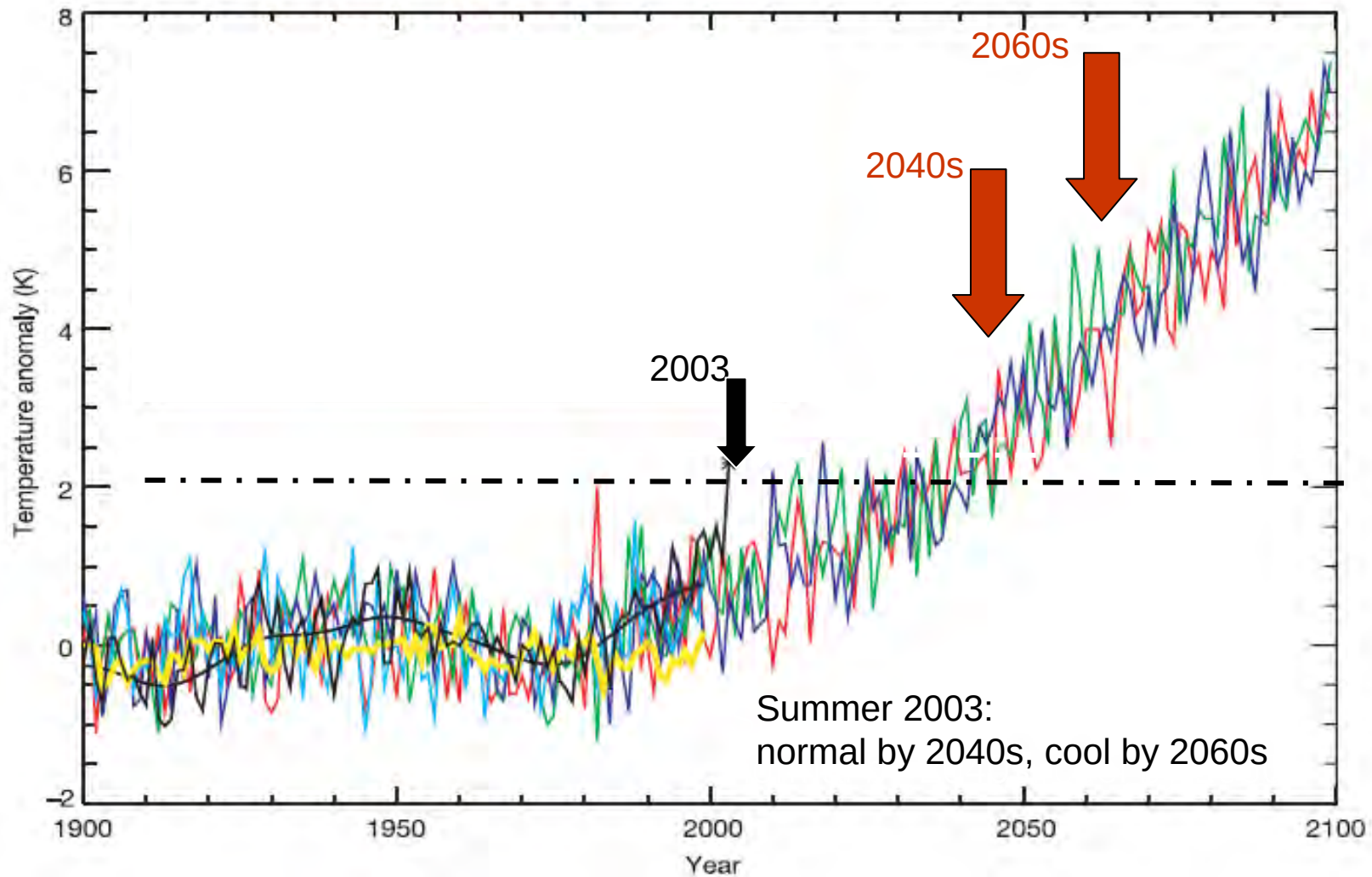


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Why is flood risk getting worse?



Our climate is changing...



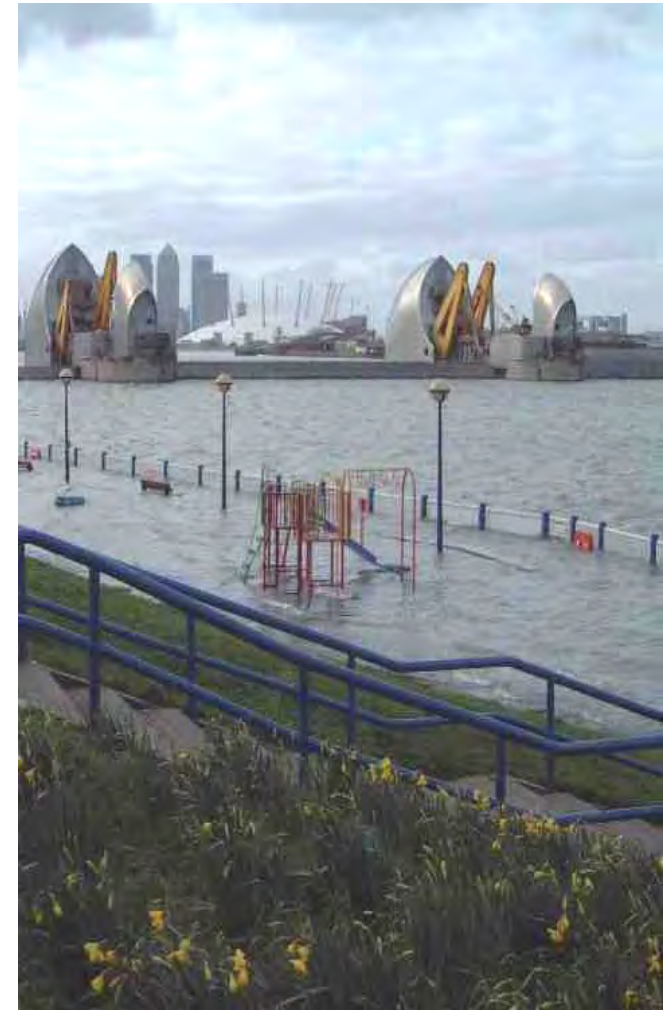
Source: Met Office



It will affect our weather...

Climate change will result in:

- Increased winter rain 15 – 30 %
- Increase in heavy rain up to 20 %
- Increase in sea level up to 90 cm
- Increase in storm surge by 120 cm
- Dryer summers



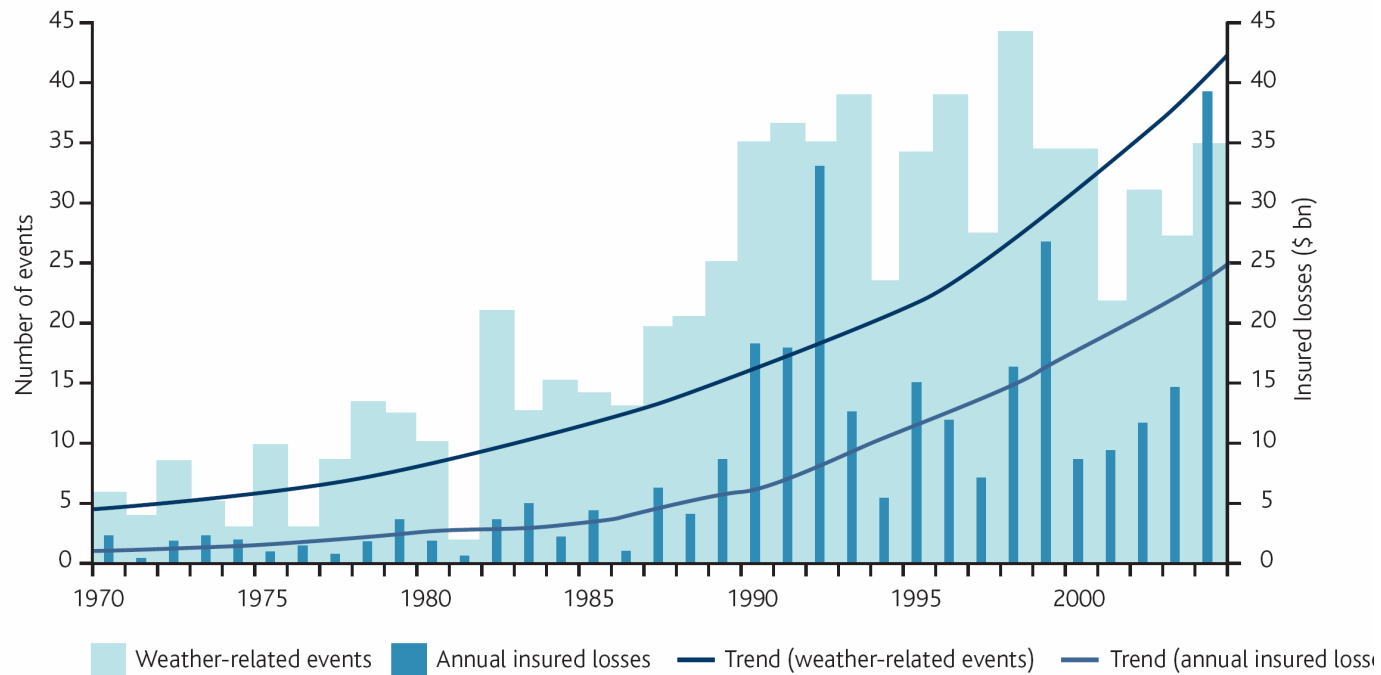


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How does this impact flood insurance?



Climate is affecting worldwide insurance claims...



Source: Sigma Database, Swiss Re.



And will affect claims much more...

	Annual average now	Extreme year	Annual average 2040-60	Extreme year 2040-60
Subsidence	£300m	£600m	£600m	£1,200m
Storm	£400m	£2,500m	£800m	£7,500m
Inland flood	£400m	£1,500m	£800m	£4,500m
Coastal flood	-	£5,000m	-	£40,000m (London)



Scottish floods – insured costs

Examples over last two decades include:

UK-wide floods (2007): £3bn

Moray (1997, 2002): £60m

Perth (1993): £40m

Glasgow/Ayrshire floods (2004): £190m

Edinburgh (2000): £36m





Future of flood insurance

- UK one of few markets that offers private flood insurance
- Insurers want to be able to continue to meet their customers' needs
- 1 in 75 risk: £30,000
typical claim: £400
annual premium needed for flood damage alone!





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How can we work together most effectively?



Delivering a competitive insurance market

- ABI reached agreement with UK Government in July 2008 and Scottish Government in December 2008
- Discussions ongoing with Cardiff and Belfast
- Our aim to ensure our customers can access a vibrant flood insurance market





Improving awareness of flood risk

- Around 4% of Scottish homes have risk greater than 0.5% of flood occurring every year: 3% in the river flood plain (73,000 homes) and 1% in the coastal flood plan (26,000 homes)
- Unknown risk from surface water/sewage flooding and further analysis needed on coastal flood risk
- Insurers want to work with SEPA and Local Authorities in improving their flood risk analysis: willing to share flood claims data with SEPA



Reducing flood risk

- Welcome Flood Risk Management (Scotland) Act 2009
- Need to ensure Local Authorities rise to the challenge and work not crowded-out by short term priorities
- Insurers keen to promote resilient repair but little interest from customers: need others to prepare the ground



Building for tomorrow

- Need to ensure new developments are located and designed to take into account climate change: ABI published *Climate Adaptation - Guidance on insurance issues for new developments* in January 2009
- Developers and Local Planning Authorities need to follow SPP7 to ensure future access to insurance
- Inform new-build customers of design features to mitigate flood risk





Delivering access to insurance

- Provide flood cover as standard feature under normal competitive market for those at less than 1.3% annual probability of flooding (1-in-75 yr)
- Continue cover to existing policyholders in areas where SEPA has notified the ABI that defences will be in place in five years to reduce risk to less than 1.3% annual probability
- Use best efforts, on a case-by-case basis, with existing policyholders where no defences planned
- New build excluded from commitments and all commitments end in June 2013
- Promoting low-cost contents insurance for social housing tenants, e.g. forthcoming seminar in Glasgow



Thinking for tomorrow: acting today

