Oxford Flood Alliance and South Oxford Flood Action Group

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5 August 2013

Dear Mr Osgood

Consultation on future direction of UK domestic flood insurance

Thank you for inviting views on the proposed `Flood Re' versus alternative, as set out at: https://consult.defra.gov.uk/flooding/floodinsurance

In responding on behalf of around 3500 homes on the Oxford flood plain, we have tried to balance the insurance needs of this community against a national benefit from improving flood resilience at both household and community level, in the light of the risk characteristics of flooding. We have commented in more detail on five issues covered to a greater or lesser extent in the circulated documents (see attached to this letter):

- Unusual nature of flood insurance risk;
- Assessment of actual risk: `Entrance threshold height' (ETH) versus `Digital terrain modelling' (DTM)';
- UK domestic housing stock: net improvement in respect of flood resilience;
- Opt-out from mandatory nature of flood risk cover; and
- Industry understanding of their own flood insurance products.

We find a compelling argument in favour of a national register of Entrance Threshold Height (ETH) data by which to relate actual flood risk to the Environment Agency's flow models. This would: generate actuarial statistics on property-specific risk; allow verification on the ground; identify properties that will benefit from improved resilience to lift them out of the higher insurance risk categories.

In this connection the consultation presents improved resilience as local responsibility, but we find that, had the extant Statement of Principles (SoP) obligated the industry to carry out only repairs that were structurally and electrically resilient, all insured properties that had flooded within the past 13 years nationally would by now have been rendered resilient and therefore removed from the high risk category, leaving the insurance industry to focus on non-repeating risk of the sort it deals with in other areas of its business (see Item 3 attached).

That this has not occurred is disappointing given that the bar was not very high to start with – the circulated *Impact Assessment* (Paragraph 6) notes that in practice `spreading flood risk across all property insurance adds only 2-3% to zero and low risk premiums', making it sound as if the industry has been spending money on expensive `risk models' to mend something that was scarcely broken to start with, and this inference is not softened by any meaningful reference to potential climate change effects.

Looking ahead therefore, if the government were to address the above issues in the proposed Water Bill, it would take appreciable time to develop a comprehensive ETH register for all zones presently identified as at `significant risk' or greater. During that period there would be time to cost up charitable/mutual versions of the proposed Flood Re, committed to offset any additional cost of resilient structural and electrical repairs against the savings from avoidance of multiple repeat repairs plus temporary re-housing costs. A charitable /mutual ethos, in tandem with a 100% resilience commitment under amended Building Regulations, would make it easier for the Oxford flood plain to find itself a net contributor to any new scheme.

Finally, in the (presently unspoken) event that agreement is not reached on Flood Re, we would ask that the industry's `database of individual property-level flood claims' (circulated *Memorandum of Understanding* (MoU) Paragraph 7d) be used to identify categories of property at highest risk, so that communities across the country can address their own needs.

In short: the uncritical linking of risk to terrain instead of to homes; the uncritical insistence on repetitive rather than once-for-all repairs; and the wettest decade on record; combine to offer an unparalleled opportunity to develop a new public interest strategy in concert with amended Building Regulations, with a target to align the cost of flood insurance with the benchmark `2-3% of zero to low risk premiums'. We think the Government and ABI are capable of meeting this challenge.

Yours sincerely

Peter Rawcliffe David Pepper Brian Durham,

Chair/co-Chairs : Oxford Flood Alliance; South Oxford Flood Action Group

ccs: Paul Kirkley (Oxford City Council); Nick Reid (Environment Agency); Daniel Johns (DEFRA); Matt Cullen (ABI); Nicola Blackwood MP; Rt Hon Andrew Smith MP

Attached:

1. ***Oxford Flood Plain residential flood insurance - OFA and SOFAG responses to DEFRA/ABI consultation on proposed Flood Re not-for-profit insurance*** (this document, below):
2. **Amended version of DEFRA/ABI circulated *Memorandum of Understanding*** (separate document: FLOOD RE PROPOSAL draftMoU OFA-SOFAG suggestions.pdf)

Consultation on future direction of UK domestic flood insurance
https://consult.defra.gov.uk/flooding/floodinsurance

Oxford Flood Plain residential flood insurance - OFA and SOFAG responses to DEFRA/ABI consultation on proposed Flood Re not-for-profit insurance:

1. **Unusual nature of flood risk insurance**

   By comparison with accident and fire insurance, domestic flood insurance has an unusual risk profile because, when a given home is flooded, every neighbouring home at an equal or lower height is also flooded, particularly relevant to Item 3 below, like-for-like versus resilient repair.

2. **Assessment of actual risk: `Entrance threshold height' (ETH) versus `Digital terrain modelling' (DTM)'**

   The Consultation makes welcome reference to existing proprietary databases of ETH values, perhaps presented as a contrast with the existing NaFRA risk assessments which we understand are based on LiDAR digital terrain modelling data. DTM filters out not only the threshold but the whole house. On the Oxford flood plain the average difference is equal to about two steps, i.e. 300mm height, which in flood risk terms on a wide flood plain like this is the difference between a 1:20 return period and a 1:55 return period.

   On this basis many houses that would have been unaffected by even the 1894 Thames flood, (estimated to have been the biggest since the reign of Elizabeth I) are nevertheless treated as being at `significant risk', a clear exaggeration of what would be shown by ETH. If ETH were available for this community, more than 95% of homes would be taken out of the Statement of Principles (SoP) pool, and if the same applied on other wide flood plains this might make a serious dent in the economics of any new scheme, an issue that needs to be addressed in the impact assessment.

   Related to this, we understand that the insurance industry has its own data arising from claims experience, which one might expect to simulate more closely the risk profile of ETH than that of DTM. In 13 years of SoP however, local householders typically do not even get a hearing from an insurer, they do not get beyond the `computer says no' response, which logically arises from the industry adopting the Environment Agency's mapping zones at face value (i.e. DTM). What is needed therefore is a statistical comparison between terrain-based and threshold-height-based assessments of flood risk.

3. **UK domestic housing stock: net improvement in respect of flood resilience**

   A serious objection to any of the options is the absence of any recognition of the potential for benefit to the resilience of UK housing stock, which is presented in the Impact Assessment as the responsibility of others. For UK government, national improvement of resilience could be pleaded in seeking EU support. For the insurance industry it might seem of secondary importance, but there is a clear argument developing that with the present extension of SoP this is no longer the case. For the last 13 years under SoP the industry committed itself to maintain insurance to flooded properties, but continued to limit its repairs to `like-for-like', evidently because it struggles to put a monetary value on `betterment'. Insurers have been known to bend if confronted by an articulate customer who recognised the wastefulness and domestic disruption of this approach, and who was prepared to contribute to any additional cost. Otherwise insurers appear ready to repeat the same `like-for-like repair', including re-housing the occupants, after each successive flood, a multiple-handling approach which cannot be economically sustainable and which in one case had demonstrably degraded a building by replacing a high-standard of wall finish with a lower standard. OFA/SOFAG therefore offers (attached) amendments to the circulated draft *Memorandum of Understanding* to help both sides out of this vicious circle by requiring that any revenue raised under whichever option can only be spent on resilient repairs, i.e. solid floors, flood resistant wall coverings and electrics installed above a 1:200 year flood level. A specimen calculation suggests that, if amended Building Regulations had demanded this approach over the 13 years of SoP, the cumulative cost of insurance repairs nationally would have been very similar and yet every property flooded during that period would by now be structurally and electrically resilient, meaning that the current debate on flood insurance would be well on the way to obsolescence.

4. Opt-out from mandatory nature of flood risk cover

The Economic Assessments of both Options 2 and 3 refer to a `pool', implying an obligation for households identified by some actuarial process to contribute to a fund. This has echoes of SoP where households were being denied access to competitive quotes by the `computer says no' response (see Items 2 and 5). Options 2 and 3 will be difficult to implement until it is clear whether ETH, DEM, `claims experience' or householder choice is to be the criterion for inclusion in the pool, because the pool could prove to be significantly different in size from that on which the Economic Assessments have been made. The Impact Assessments therefore need more clarity or flexibility on this issue.

5. Improved staff training for insurers

This is difficult to quantify because householders are naturally reluctant to relate their treatment by insurers, but a documented example seems typical of many anecdotal examples.

> The insurer asked, via the local agent, for the householder to provide the standard EA insurance letter. The agent however interpreted this as withdrawal of cover, and offered alternative cover. In the event the alternative insurer would not play, leaving the householder stranded. The agent claimed then to have a specialist department, but they could offer nothing new, so the householder directly approached the first insurer, won a 30-day extension of cover, and eventually a renewal of cover but at a 60% increase in premium. In reporting this back to the agent, the householder offered some free staff training (!), which yet to be taken up. Although the ETH of the house is 450 mm above the 2007 ≈ 1894 flood levels, the premium quoted for renewal a year later was raised by a further 30%. The householder approached the National Flood Forum whose broker instantly found cover at half the new premium. The local agent and Insurer 1 declined to compete, suggested there must be a catch, kept the cover open, and eventually asked who the new insurer was? `But we sell their policies', said the agent sounding slightly hurt, `why does the wording in our version preclude the Oxford flood plain when the wording via the NFF broker clearly accepts it at the same premium?' The offer of free staff training naturally remains open!

BD, 1 August 2013 rev 5 August 2013