

Pitt Review: Learning lessons from the 2007 Floods

Main Findings

- Urgent changes are necessary in the way the country is adapting to the increased risk of flooding.
- The Government should publicly set out its plans on improving the country's flood resilience.
- It should create a national framework to reduce risks to the delivery of services. This includes mandatory business continuity planning for critical infrastructure.
- For the wider business community, local authorities should encourage the take-up of property flood resistance and resilience by businesses.
- Local authorities should revisit their reserves and insurance arrangements as a result of the 2007 floods.
- The insurance industry was seen to respond relatively well to the floods, considering the magnitude of claims, however some problems were observed.
- A survey for the review found that following the floods, 72% of claimants were satisfied with how insurers handled their claims, while 22% said that they were dissatisfied.

After the floods of 2007, which claimed 13 lives and affected twenty-three English counties, plus parts of Scotland, Wales and Northern Ireland, Sir Michael Pitt was asked to carry out a review of the country's flood defences. His full report was published on 25 June, and contained 92 recommendations, including 4 directly concerning the insurance industry.

Insurance impact

- **Overall support of industry conduct:** contrary to earlier concerns, the Pitt Report is broadly supportive of the insurance industry's performance during last year's floods, acknowledging the key role insurers played in the UK's post-flood recovery last year, saying the industry 'generally responded well' to the crisis. There were 180,000 claims in June/July of last year and the insurance cost resulting from the flooding totalled roughly £3bn. The amount claimed resulting from the floods were quadruple what they normally would be in an average year.
- **Claims concerns:** there were however serious problems experienced by a small but significant minority. 72% polled were satisfied with the settlement of their claims, but 22% were dissatisfied, with reasons including too long to carry out repairs, lack of information and poor channels of communication/advice. Service could have been improved through better communication, managing expectations and more clarity regarding the claims process.
- **Voluntary guidance:** the report recommends that a system of voluntary guidance be adopted in order to address reasonable service performance from insurers. Such a model should include a commitment to provide a plan for each claim, and explain the minimum service standards people can expect. It should also help raise the service standards among insurers who performed poorly in this crisis and improve the relationship between company and customer.
- **System of provision:** the report says that there is no evidence that there are changes needed to the system of provision of flood insurance.
- **Underinsurance:** it calls for addressing the insurance gap through better education and publicity. It also raises concerns regarding low income housing and insurance. Price is often the key deterrent in insuring low-income homes, but there are schemes available to address this, and their use should be encouraged.

Next steps

While insurance should be the 'last line of defence' in flooding, it is still a necessary one. The following are three challenges in providing this defence:

- 1) **Reputation:** Despite the overall positive performance of insurers in the wake of last year's flooding, there were clear examples of incompetence when dealing with more than 1 in 5 claimants. This is clearly unacceptable and it will have a long-lasting impact on the reputation of

Insurance recommendations

There were four specific recommendations for insurance in the report:

- The Government and the insurance industry should work together to deliver a public education programme setting out the benefits of insurance in the context of flooding.
- The Government should review and update the guidance *Insurance for all: a good practice guide* for providers of social housing and disseminate it effectively to support the creation of insurance-with-rent schemes for low income households.
- In flood risk areas, insurance notices should include information on flood risk and the simple steps that can be taken to mitigate the effects.
- The industry should develop and implement guidance for flooding events, covering reasonable expectations of the performance of insurers and reasonable actions by customers.

the industry. Those who performed poorly must implement better channels of customer service following crisis events.

- 2) **Underinsurance:** Underinsurance continues to be a significant problem, and it will continue to get worse as flooding risk increases as a result of climate change. It poses a great challenge to the industry to close that gap. Education, working with Government, and increased presence in at-risk areas and offering advice/information at time of renewal are all possible approaches to addressing this.
- 3) **Consumer knowledge:** The report calls for greater openness in the property market to ensure that buyers have a clear understanding of the risks of buying in a flood-prone area - local authority searches and Home Information Packs should both be required by law to carry that information. This recommendation could have major impacts on insurance as heightened consumer awareness in this area could lead to significant pick-up of flood coverage.

Reactions

Environment Secretary Hilary Benn: welcomed Sir Michael Pitt's report and the direction it sets, and that the Government would respond with an action plan in the autumn.

- He also announced that part of the £34.5m budget allocated to implement the Pitt Review would be used to take forward work in several key areas including the development of surface water management plans in high priority areas.
- By the end of July a National Flood Emergency Framework will have been published, with a draft consultation by the end of the year. A draft Floods and Water Bill will be brought forward in the next session to respond to the review's recommendations.

In the debate following the Minister's statement:

- Crispin Blunt (Conservative) and Shona McIsaac (Labour) questioned the future role of insurers, in particular flood coverage and the speed with which claims are dealt.
- Mr Benn replied that he is in ongoing dialogue with the ABI, and that insurers will continue to provide flood cover in return for increased Government investment. The Minister also added that the events of last year highlighted that people cannot afford not to take out insurance against flood damage.

ABI: called on the government to act on the recommendations of the report. "This report must not sit on the shelf," said Nick Starling, the ABI's director of general insurance and health.

"By highlighting how underprepared we are for a major flood, it must be a catalyst for an overhaul in managing and adapting to the increasing flood threat. The government must act now to develop a long-term flood strategy."

The Environment Agency: welcomed the report and highlighted the need for further clarity on the responsibilities for flooding and additional resources to help adapt to climate change. They also welcomed how the report reinforces the importance of individuals in taking responsibility for protecting themselves and their property.

The Local Government Association: supported the recommendations to put councils at the centre of dealing with flooding and managing the risk of flooding. They called for clarification on the duties of other local organisations in the process. The LGA also said that the insurance industry needed to step up efforts to re-house those affected by last year's floods.

The Met Office: welcomed the recommendation for a joint centre to deal with the issue of severe weather and flooding in the UK, commenting that such an integrated approach would provide important benefits. These include more consistent, clear and earlier alerts. The MET office has already unveiled developments that will allow more precise pinpointing of when extreme rainfall will occur.

The Institution of Civil Engineers (ICE): welcomed the recommendations but urged the Government to take the necessary action to mitigate and adapt to the growing threat of floods in the UK. They call for a long-term view to be taken, with an end to yo-yo funding on flood risk management.

ICE has also published a report on flooding which found there is an urgent need for spare capacity to be built into the system as the infrastructure network is still far too vulnerable.

http://www.ice.org.uk/downloads/2008_flooding.pdf

Axa: supported the recommendations. Axa claims director David Williams said: "We are pleased that he says that the insurance industry has generally responded well to the 2007 floods... Axa would also like to play a part in a National Resilience Forum, designed to facilitate national level planning for flooding and other emergencies.

"We also strongly endorse the recommendation that local authorities should create a definitive map of all drainage ditches and streams in their area, making clear who is responsible for maintaining them. More than 75% of our flood claims in 2007 resulted from drainage issues."

BIBA: welcomed the report, and urged Government to commit to the recommendations and 'spend the money' needed to do so. Graeme Trudgill, BIBA's technical and corporate affairs executive, said the industry would benefit from improvements in preparation coupled with more accurate flood mapping.

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