Society of Claims Professionals

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Good Practice Guide

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Escape of Water for Claims Professionals

This paper is in response to members' requests to provide a summary of good practice within one source document and is based upon the Society of Claims Professionals' understanding of the regulator's rules and current stance. Whilst a summary, it is not intended to be exhaustive and should not be relied upon at the exclusion of other sources of information.

Foreword

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'Escape of Water' has become a common and significant issue within the market, one which has been quoted as a significant factor in several End of Year Financial Reports and Financial Results, as well as absorbing a lot of management time in both the Domestic and Commercial property spaces.

The issue presents as both a frequency and severity issue, meaning its impact is both evident and significant, and adversely affecting average cost trends over the last three to four years, which ultimately shows itself in the loss ratio and combined operating ratios of insurers across the entire market.

There are a host of factors that feature and serve to contribute to the issue, including building design, quality of materials, home improvements, number of water apparatus in properties, and accessibility and visibility of some water escapes, to name but a few.

Control and visibility are required to help understand and mitigate against causes, process, rates of repair and methodology in order to support both the customer provision of excellent service from the industry to deal with what can be very destructive claims, and also financial control of these claims to support profitability.

Increasingly, insurers are now looking at early detection and prevention as key activities and this area of the market has more to deliver on this phenomenon in the future.

This paper seeks to set out the key issues and areas of focus on this important topic, together with steps and suggested good practice being taken to act as remedies to mitigate it.

Introduction

Why is 'escape of water' (EOW) an issue?

According to the Association of British Insurers (ABI), 2018 saw the worst period of burst pipes on record in the UK. This follows on from their report in 2017 which saw the number of claims related costs rise for another year. Their data showed that the total cost of domestic escape of water claims increased year on year as follows:

- 2015 – 21%
- 2016 – 26%
- 2017 – 28%

Insurers are paying out nearly £8m per day on domestic claims, highlighting that while this is a frequency issue it is predominantly a severity issue. As a result of this, the ABI called on insurers to prioritise reversing the rising costs of escape of water claims. However, with many causes of this problem, there are lots of things to take into consideration before effective measures can be implemented.

What are the causes?

Escape of water in households can occur due to a variety of reasons. Anything from poor maintenance and design, to the impact of weather, may contribute to the damage of pipes. Specific examples include:

- poor installation of fittings
- poor component design or materials
- defective manufacture or production
- pressure fluctuations and water hammer
- physical or mechanical damage
- temperature fluctuations
- general wear and tear
- corrosion
- blocked outlet pipes

IFIC Forensics say that:

"The most common cause of escape of water claims is poor workmanship. This trend can be seen across all types of pipework fittings including push fit, compression and soldered connections, with the failure of push fit fittings and compression fittings being the most frequent.

These failures can be the result of the use of incompatible components of incorrect sizing or produced by different manufacturers, the failure to install pipe inserts or to ensure the pipe is fully housed within the fitting body of the connection or of cross threading or overtightening of components."

Just a small rupture can release large amounts of water, damaging plaster, carpets and other household contents. The ABI have calculated that on average a claim related to a burst pipe can cost nearly £9,000. This is because the cost of repairs extends far beyond the actual pipe, they cover the other damaged property too.

There are also noticeable lifestyle and societal changes which have seen an increase in home improvements and DIY, with not only a significant rise in home repairs but homeowners adding new water carrying utilities too. With extra toilets, en-suites, underfloor heating and showering facilities introduced into existing buildings, the overall plumbing is not always equipped to deal with the extra amounts of water, putting a strain on existing pipes and overflow. The use of poor-quality materials or low-skill repairs also add to the probability of a substantial leak occurring at a later date.

Another major factor is sudden fluctuations in temperature during cold spells, as when the temperature drops, pipes are more likely to freeze and then burst when thawing. This is because when water freezes its molecular structure changes, causing it to expand when it takes on a solid form. The expanded ice may then rupture the pipe, causing it to break or leak when the ice thaws and returns to its liquid form. External pipes or pipes located in unheated areas are particularly susceptible, or if an unoccupied property is left unheated during cold weather.

Escape of water can also lead to subsidence damage if the water disrupts or causes movement of the foundations of the property. While most home insurance policies include the repair of damage caused by subsidence, they do not cover actual prevention of subsidence related to the structure of the affected property.

Prevention and detection

Prevention and detection should be a priority for clients as these are the issues where the market is still slow to react. Therefore, a greater focus on the importance of early detection methods are something the sector needs to prioritise.

Common types of leak can be prevented by the following:

- Ensure pipes connected to major appliances are secured properly;
- Regularly check overflows on toilets, sinks, baths and tanks;
- Regularly inspect and maintain sealing around baths, showers and sinks;
- Turn off water supply if property is to unoccupied for a long period of time;
- Insulate and/or secure pipes in vulnerable or exposed areas; and
- Keep heating on a low temperature to prevent freezing.

New types of technology can also alert clients on whether a leak has occurred so that they may be able to react quickly or mitigate the extent of the loss. Successful solutions will come out of collaborations involving mainly, but not exclusively, insurers, brokers and tech companies that put the customer at the heart of the development process. This should deliver an end product that delivers peace of mind to the customer. One example is a smart water detector where leaks can be identified from the main water supply and notifies the user via a smartphone app, alerting them of any potential issues. By promoting and encouraging detection software, clients will be able to monitor their own systems rather than having to wait until an unnoticed leak tuns into major damage.

How to respond to a claim

For insurers to keep costs down they need to look at how they are responding to incidents and examining any processes that may be deemed as wasteful. The First Notice of Loss (FNOL) needs to be processed effectively as the first 30 minutes of a domestic escape of water claim is vital. This will allow the loss adjuster to understand the nature and severity of the claim. By obtaining an initial description of the issue from the claimant, the loss adjuster can make steps to action what is covered under the policy wording. While the best interests of the customer should always be prioritised, the terms and conditions of the policy should be adhered to. When responding to a claim, the following should be checked to prevent any unnecessary spending:

- Is trace and access coverage included?
- Are replacements necessary?
- Does the policy specify matching sets?
- What are the policy limits?
- What are recent Financial Ombudsman Service (FOS) decisions?

Responding quickly to a claim should be a priority for all claims professionals. However a response still needs to be done within the agreement of the original contract. Erroneous spending can complicate and cause later issues related to the claim.

What more can be done?

If the claim is genuine, and has been responded to promptly, there are still cost-effective measures that can be followed to keep claims costs down. Reacting quickly can sometimes cause impulsive decisions that don't consider the long-term costs involved. Each process should be approached cautiously to determine whether it is the most appropriate course of action as well as the most economical, such as:

- **method of repair:** is there sufficient rigour around contractors and are they charging appropriate rates?
- **recovery:** is drying out the affected area more appropriate than stripping out the damage?
- **alternative accommodation:** is the property uninhabitable or is the damaged area merely 'inconvenient'? eg can a temporary kitchen be installed?
- **repair vs. replacement:** with improved repair services available, is replacement always the best course of action?
- **subrogation:** is there a third party at fault?
- **cost control:** is there effective supplier control? do the suppliers understand the philosophy of the insurer?
- **feedback:** is there an effective and consistent audit regime?

Considering any of the above more carefully could keep down any unnecessary spending and therefore reduce claims costs.

Aligning suppliers

One area where spending can spiral are inconsistent (or lack of) processes with suppliers. If each response is approached without an effective system in place, costs will rise as separate teams will work independently of each other. Suppliers need to be aware how insurers handle their claims approach in a compatible way.

Rather than going through individual policy wordings each time there is a claim, a joint handling philosophy document should be established that outlines mutually agreed terms on how to start repairing damage. This way suppliers will not have a conflicting approach to the policy wording and understand the methodology behind how the insurer approaches a claim.

How to detect fraudulent claims

There will also be cases where claims are either falsified or exaggerated. IFIC Forensics outline some of the more obvious examples:

- water damage in improbable locations
- unusual water staining (eg coffee and or tea stained water used to recreate water stains)
- dry dust and debris within areas of alleged water damage
- ceilings being pulled down in unlikely or dry places
- signs of mechanical damage (eg holes or tool imprints to pipework)
- lack of water staining to timber ceiling joists within areas of high damage
- blocked or disconnected overflow devices
- operational overflow devices
- clean cut pipework within the area of origin
- frozen pipe claims during periods of cold weather
- indicators of an uninhabited property when insured claims occupancy surrounding the escape
- damage to furnishings from areas outside the location of the escape

When assessing the site of the incident it is important to be vigilant and look out for some of these obvious warning signs. There may be a legitimate claim that has been exaggerated, but any false claims need to be processed in an appropriate manner.

Good Practice

1. Respond quickly.

Delays in responding to a claim can be costly. The longer it takes to assess the damage the more likely it is for the damage to get worse, resulting in more repairs. There is also a chance that evidence of the cause of the escape of water may be interfered with, destroyed or even repaired if there is a delay in assessing the site. Make sure that forensic examinations are taken place before any repairs or clean-up takes place after the initial incident.

2. Establish an effective process.

Make sure that everyone involved in the claims process has a clear understanding of their individual roles and responsibilities, and that they are working in the correct order. Consider a triage routine like the following:

- Has the leak stopped?
- Has the main water supply been switched off?
- What actions have been taken to dry the affected area?
- Who should be first at the cite of the incident?
- Have appropriate rates for remediation contractors been established?
- Are replacements and repairs in accordance with the policy wording?

Independent forensic investigators should be the first at the incident, followed by an independent plumber if required, and finally contractors, manufacturers or installers only allowed on site once the initial investigation has taken place. This should ensure that a proper investigation can take place without any corruption or disturbance to the evidence.

3. Document evidence thoroughly.

Make sure that all information is recorded properly before repairs and clean-up takes place. Implement a thorough investigation that is documented effectively, including detailed notes photographic evidence, so that information can be accessible and understood by anyone who needs to see the information.

4. Only allow essential remedial works.

It can be very frustrating for a client to not be able to use the area where the damage has occurred due to the escape of water. If it takes a while for all individual parties to assess the scene some urgent repairs may be necessary. If this is the case, make sure all essential evidence is gathered and/or investigated before any emergency repairs so that you may resume the investigation.

Conclusion

With claims-related costs rising further in 2018, more effective measures are evidently needed to see a decline in payouts, as desired by the ABI. By examining how to respond effectively to an FNOL with an effective triage regime in place, claims firms may make small but necessary steps in controlling their spending.

Encouraging greater vigilance from clients, including insulating pipework and installing early detection software, should also help limit and manage any damage, reducing any potential large-scale damage. However, it will be through efficient processes, consistent working relationships with contractors and suppliers, and establishing a clear set of requirements where the cost savings will be at their most effective.

Managing the right balance between fulfilling the policy as per the terms of agreement and fair treatment of the customer will vary from claim to claim. But by getting standard processes established first should save time and money to deal with the circumstances of each individual claim. There is no single solution to address rising costs. But by encouraging due diligence, responding quickly and activating policies that are clear and fair should all contribute to managing this escalating issue.

Appendix – Primary Source Material

Association of British Insurers

Date	Name	Summary	Link
23 November 2017	Water pressure	Tackling the rising costs of escape of water claims.	https://www.abi.org.uk/news/news-articles/2017/11/water-pressure--tackling-the-rising-costs-of-escape-of-water-claims-must-be-a-key-priority-for-the-industry-says-the-abis-james-dalton/
7 December 2018	Is water damage covered by insurance?	Answering insurance questions about burst pipes and leaks.	https://www.abi.org.uk/news/news-articles/2018/12/is-water-damage-covered-by-insurance/

Chartered Insurance Institute

Date	Name	Summary	Link
6 December 2016	Plugging the drain of escape of water claims through connected tech	Examining how technologies can support underwriting and reduce, or even eliminate, risk for customers.	https://www.cii.co.uk/news-index/articles/plugging-the-drain-of-escape-of-water-claims-through-connected-tech/44035

Financial Ombudsman Service

Date	Name	Summary	Link
December 2006 / January 2007	Home insurance case studies	Problems with leaking or blocked pipes.	https://www.financial-ombudsman.org.uk/publications/ombudsman-news/58/58-home_insurance.htm

IFIC Forensics

Date	Name	Summary	Link
December 2017	Escape of Water Claims	Trends in causation.	https://www.ific.co.uk/wp-content/uploads/2017/12/Escape-of-Water-Claims-Trends-Dec-2017.pdf
	Escape of Water	Explaining the cause of escape of water.	https://www.ific.co.uk/specialism-services/escape-of-water-chemical-spills/
	Escape of Water Factsheet	Overview of causes, hints and statistics.	https://www.ific.co.uk/wp-content/uploads/2015/11/IFIC-Escape-of-water-A4-factsheet_finalb_online.pdf