

## Safe as houses: flood insurance and a history lesson for the future

When it comes to flood disasters, insurance plays a major role, and not just by paying out to homes and businesses to help them recover from the damage. It also plays an even greater role behind the scenes, by helping to limit the damage from flooding in the first place.

The idea of buildings insurance encouraging customer behaviour dates back to the aftermath of the Great Fire of London in 1666. Since then, insurers have often been the leaders of risk resilient behaviour, and this will continue into the future in areas such as climate change.

### Flood responses and resilience: the UK floods of 2014

Much has been written about the extent of the insurance industry's response to the winter floods of 2014. But as great as this reaction was (see box, right), the industry had already done a lot behind the scenes, long before the first rains fell that Christmas and the phones started ringing.

In fact, without that advance activity, the damage would have been far worse. Insurance works by covering a specific and foreseeable risk on behalf of a customer, provided that the necessary steps are taken to prevent that risk from occurring. It works because neither the insurer nor the policyholder want the risk to materialise in the first place.

### Flooding as a fact of life

In the UK, flooding is fast becoming a fact of life. When you consider the number of rainfall records broken in the last five years alone, it's not surprising that the frequency and costs of these events are increasing.

Given this situation, homeowners, businesses (and the Government) have an incentive to take steps to reduce the risk of flood damage and help to lower costs.

### The lesson from history

The concept of buildings and contents insurance incentivising policyholder behaviour is as old as buildings and contents insurance itself. In 1681, fifteen years after the Great Fire of London destroyed over 13,000 dwellings, Nicholas Barbon and his associates decided to introduce the first buildings insurance policies. To prevent the risk

### Floods in numbers: 2014

Floods: **18,700** claims

**£451m** paid out

Storms: **448,300** claims

**£640m** paid out

**£30m** spent on alternative accommodation for **2,900** households

Average estimated repair cost per household: **£11,000**

Source: ABI

from occurring, his company only insured brick and frame homes. This created the incentive for a new, fire preventative building practice which spread as quickly as the flames had once done.

Since then, insurance has continued to be a source of risk management skills and to gather large amounts of data on various aspects of risk. It does this across a variety of applied disciplines: construction, geography, geology, health to name a few. This data leads to policies that in-turn send pricing signals to society and to the economy. The result is more risk-resilient behaviour.

As such, insurance works to prevent the risk from occurring. Just as Barbon's insurance firm only insured brick and frame buildings in 1681, a similar approach can incentivise preventative behaviour.

Another way to deal with the issue is to respond promptly to risks when they do occur. In the 1680s, the first buildings insurance firms introduced the world's first organised local fire services. It was an effort to reduce the risk of total loss in the event of a fire. Those fire services eventually amalgamated and nationalised into what we know today.

## **A lesson for the future: climate change**

Not surprisingly, the insurance sector is often behind some of the most advanced research into safety and risk reduction - and across many fields.

For example, insurance firms including Munich Re, AON, Aviva and RSA Group are at the forefront of research into climate change resilience and mitigation. Their projects are covering issues such as the impact of greenhouse gas emissions; the severity of major disasters such as typhoons, hurricanes and wildfires; and making buildings more resilient to flooding.

The Flood Re arrangement (concluded in 2013 between the Government and the Association of British Insurers) is an example of this system in action. The arrangement covers most residential properties in high flood risk areas, with two major exceptions. First are those properties in the highest value band, which was primarily a political decision because the initiative was designed to provide affordable and accessible insurance. Second are those properties (of any value) built in 2009 or later, which was an attempt to discourage the building and sale of properties in high risk areas.

All of these initiatives and arrangements are helping to shape a more climate-friendly and climate-resilient behaviour across the wider economy. Whether or not you personally believe in man-made climate change is of no consequence.

However, if you want to enhance the saleability of that new-build you're planning, you might just think about including better flood proofing within your design.

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