

## Loss leaders

***With increasing concern over the potential impacts of climate change, Dr Justin Butler looks how a major 'Katrina like' event could affect the insurance industry in the UK.***

Global catastrophes such as Hurricane Katrina have forced many countries, including the UK, to look long and hard at the vulnerability of their own urban centres. It is now thought that Katrina could eventually cost insurers billions in damage, making it the most costly hurricane to make landfall in US history. Though Katrina's windspeeds, which reached 140mph, caused colossal damage, it was the devastation from associated floodwaters which surprised the insurance industry the most. Interestingly in the UK, there is already growing evidence of an increasing flood threat. The Thames Barrier for example, was raised 19 times in 2003 compared with only 15 times in 2001. This shows that the nation's flood defences are coming under increasing strain as climate change continues to impact upon our weather.

In the UK, the government is planning to build thousands of new homes, especially in the South East of the country, to help address growing demand. Some of these developments are likely to occur in areas identified to be at risk of flooding. For example, the regeneration of the Thames Gateway includes the building of 120,000 new homes and redevelopment of the Lea Valley for the Olympic Village.

Given the predicted impacts of climate change and increased development in the Thames region, levels of flood risk are likely to increase in many parts of London in the future (Thames 2100, 2006). An estimated 75 per cent of the property value at risk from tidal floods in England and Wales lies within the Thames tidal flood plain (Thames We, 2006). The increasing reinsurance costs, could leave the UK insurance sector facing either massive losses or a marked increase in premiums to maintain cover. If a 'Katrina like' event were to occur in the UK, a large storm surge flood along the Thames could cause damage in excess of approximately £580 million (RMS, 2003)

The changing nature of risk and the environment around us means that extreme flood events will undoubtedly increase in frequency and severity in years to come. In the UK, insurers must be prepared to better understand and manage flood risk in high-value, 'high risk' urban areas.

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