

# When it rains...

Insured loss estimates from the recent spate of UK floods are rising, with the figure now hovering at around £3bn. **Andrew Wragg** wades into a month of water damage

THE BRIEF

- ▶ **ABI: UK summer floods will be 'commonplace'**
- ▶ **Insurers withdrawing cover in certain regions**
- ▶ **Floodplain housing development to continue**

The unusual monsoon-esque rain of the past couple of months has sent the UK's infrastructure into tailspin, and presented a hefty bill to the insurance industry. The first major flooding occurred on June 15<sup>th</sup>. The second deluge happened on June 25<sup>th</sup>, causing a £50m economic hit to businesses across England, according to Grant Thornton.

By June 28<sup>th</sup>, RMS estimated insured losses had climbed to £500m. It described the floods as 'a 1:100 year event' caused by 'a stationary east coast depression which draws moisture from the North Sea'. On July 9<sup>th</sup>, the Association of British Insurers (ABI) reported revised loss estimates of £1.5bn (up from £1bn) following claims from 27,500 homes and 7,000 businesses, prompting a meeting between the industry and government ministers to discuss a plan of action.

The Chartered Institute of Loss Adjusters said home insurance claims would average £30,000, and that business claims would average £100,000. Individual industry losses were estimated at £175m for Aviva, £100m RBS, £75m HBOS, and £50m for Lloyd's TSB. Meanwhile, IPC Re, based in Bermuda, said the floods in the UK and Australia had reduced its Q2 earnings by between 20 to 40 cents per share.

## CLAIMS FLOOD IN

By July 11<sup>th</sup>, Cunningham and Lindsey, a company specialising in claims management and loss adjusting, had received 12,000 claims. NFU Mutual said it had seen damage to properties that had 'never flooded in living memory', as well as damage to homes and business on higher land. Allianz UK chairman, Clement Booth, said UK flooding was now ranked as 'a major world-class risk' and had been a wake-up call to government, the industry, and consumers. He added that some insurers

might be forced to reassess their portfolios, reducing their commitment to particular flood zones.

Meanwhile, the ABI was quashing any attempts by the British government to lay blame at the door of industry. In a special meeting, it told ministers that 99% of affected homes and businesses had received a visit from a loss adjuster, and hailed insurers' efforts in bringing relief to those suffering. The ABI later warned that climate change would make UK summer flooding 'commonplace', adding that 570,000 UK properties were now at 'significant risk' of flooding, compared with just 200,000 in 2002. Environment Agency estimates suggested 2.2m UK homes were located in flood risk areas, and the media reported that one third of the 200,000 homes planned for the south east of England are to be built on floodplains.



## TOO LITTLE TOO LATE

Government ministers have pledged to increase flood spending – frozen since 2004 – from £600m this year, to £800m in 2010 and 2011. But concerns abound that the money will come too late, especially in light of reports by the National Audit Office that only 57% of UK flood defences are 'up to scratch', with significant regional variance.

The withdrawal of flood risk portfolios was being mooted in several camps. Norwich Union stated that if flood risk became greater than 'significant' – i.e. worse than a one in 75-year event – and the area was not defended, it would back-off.

Meanwhile, Guy Carpenter and AIR are working away on advanced UK flood software; and not before time: by July 23<sup>rd</sup>, the continuing heavy rain had resulted in the ABI upping its insured loss estimate to £2bn.

Adding insult to injury, the next day, rating agency, Fitch said insurers' hit could be £3bn, mollifying the announcement by claiming the floods were expected to have 'limited impact' on the credit ratings of UK insurers.

## URBAN FLOOD RISK

Specialist flood modeller, Ambiental, said the flooding had highlighted the specificities of urban flood risk. Ambiental has now identified 135 UK towns and cities at risk of flooding, each with its own unique set of exposures.

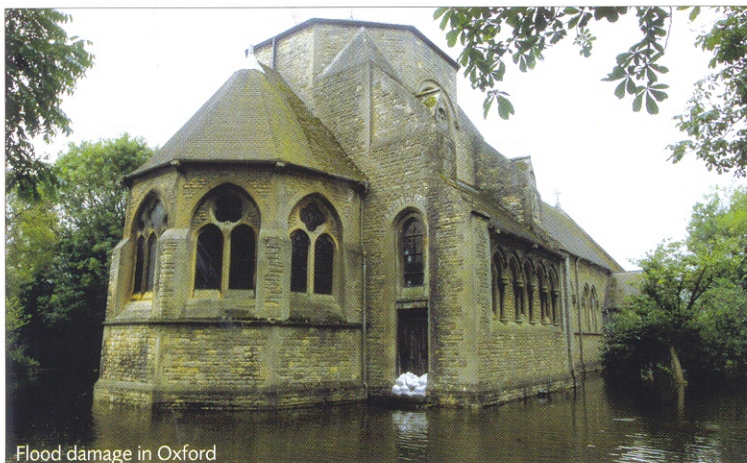
"This set of events highlighted the importance of recognising additional sources of flood risk," said Dr Justin Butler, Ambiental managing director.

"Just looking at river flood risk in isolation provides an incomplete picture; surface water, groundwater and sewer flood risk also need to be factored-in.

"The prevalence of very high intensity, long duration rainfall has placed a strain on stormwater drains that are typically designed to cope with a 100-year storm event at best.

"Meanwhile, increased urbanisation is acting to reduce the permeability and infiltration capacity of surfaces which, in turn, promotes increased runoff rates and flash flooding.

"We need to educate the insurance industry about multiple sources of flood risk, so it can better assess its exposures going forward." ®



Flood damage in Oxford