



The future of flood insurance in the UK

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Approximately one in seven properties in the UK (3.6 million homes and businesses) are at risk of flooding. The Adaptation Sub-Committee of the UK Committee on Climate Change reported in 2012 that development on the floodplain grew at a faster rate than elsewhere in England over the past ten years, with one in five properties in the floodplain in areas of significant risk. They concluded that current levels of investment will not keep pace with the increasing risk, noting that without additional action, climate change could almost double the number of properties at significant risk by 2035. Flood insurance can contribute to risk reduction by using pricing or restrictions on availability of cover to discourage new development in flood risk areas, or to encourage the uptake of flood resilience measures.

The UK insurance market currently offers flood cover as a standard feature of domestic and small business policies, with central government providing physical protection backed up by financial protection provided by the insurance industry. This approach is unusual in not passing all or part of the flood risk to government schemes. At present, flood insurance in the UK is conducted under a series of informal agreements established between the insurance industry and the Government known as the Statement of Principles. Members of the Association of British Insurers (ABI) currently agree to cover homes at risk of flooding in return for government commitment to manage flood risk. However, this arrangement is now under threat, as the insurance industry is increasingly reluctant to bear the financial burden of flooding alone. The current Statement of Principles ends on 30 June 2013 and will not be renewed. High-risk properties may be unable to obtain insurance after the Statement of Principles expires. Unusually, insurers are arguing against a free market solution, arguing that no country in the world provides universal flood cover without some form of government-led support. The UK insurance industry prefers a risk-pooling approach, while to date the government has not taken a position on the future of flood insurance after 2013.