Saving homes and businesses: managing flood risk

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Contents

1.

Flood Facts

- 280,000 homes and 100,000 businesses are still exposed to a flood risk in excess of 1 in 75 years probability.[1]

- The current effectiveness of the Thames Barrier is only designed to last until 2030 – only 25 years away. Following the horrific floods in 1953, the Greater London Council invited proposals to solve the problem in 1965 and it took until 1982 to complete the barrier.

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- Some 200,000 new homes are planned for South East England in potential flood risk areas such as Thames Gateway, Ashford, the London – Stanstead – Cambridge corridor, and Milton Keynes.

- A major flood in the Thames Gateway could cost as much as £12 bn.[2]

- The current annual flood budget for England and Wales is £564 million.

- Two million households or five million people in the UK are at risk of flooding, equivalent to 10% of the population. 1.5 million people are at high risk from flooding.[3]

- Climate change could cause the number of people at high risk from flooding to rise from 1.5 million to 3.5 million.[4]

- While new construction methods are designed to reduce the time to build a property and the cost, little is understood about their resilience to the likes of storm and flood damage and the associated repair costs.

- The Environment Agency's (EA) national flood defence database is incomplete and has not been made available to insurers. As such establishing where investment in defences has been made is difficult to find.

1. *Association of British Insurers*
2. *London Assembly report: London under threat? October 2005*
3. *Environment Agency*
4. *Foresight Future Flooding Report*

2. Executive Summary

The changing weather patterns in recent years and the increasing property damage as a result have caused insurers to look more carefully at the provision of flood cover for domestic properties and small businesses. The government has also been forced to commit to increased spending on flood defences.

This report brings together government figures and the experience of MORE TH>N and Royal & SunAlliance (R&SA) to analyse flood risk prevention measures in the UK and to make recommendations for the future. The report provides a history of recent flooding events and the debate on flood prevention at government level. It also takes into account recent statements by Department for Environment, Food and Rural Affairs (Defra), including the August Delivery Plan. It summarises some of R&SA and MORE TH>N's experience in dealing with flooding and describes the risk tool used for accurate flood risk mapping.

Royal & SunAlliance / MORE TH>N recommendations:

1. Building in flood risk areas must be avoided and only happen as a last resort.
2. There needs to be better understanding of new construction methods and their vulnerability to flooding before widespread building using these methods takes place.
3. Decisions need to be made about the future of the Thames Barrier so it can continue to provide current levels of protection to homeowners and businesses beyond 2030.
4. Climate change must be reflected in government spending plans.
5. The level of funding needed to **maintain** defences should be agreed. It would be unfortunate if the money spent on new defences was wasted because defences are not maintained going forward.
6. The Environment Agency must become a statutory consultee as a matter of urgency. We welcome the government's promise in the latest Defra Flood Delivery Plan for this to take place, and we would urge it to happen quickly.
7. Insurers must get clarity about where flood defences are to be built and by when.
8. Ensure Environment Agency efficiency savings are achieved so that their funds can be invested in flood management.

Recent events have shown that the incidence of flooding is increasing.

The floods in autumn 2000 across the country, were referred by John Prescott, Deputy Prime Minister as a "wake up call". This led to increased activity within the insurance industry and the government. This report reviews this activity, highlighting what the government has achieved and how Royal & SunAlliance and MORE TH>N have responded.

Since this wake up call, we have also seen incidents in Carlisle, Boscastle and Yorkshire.

Progress Assessment
It is clear there has been much progress in what the government has done, such as:

- Increasing flood defence funding from £394m in 2002 to a level of £564m in 2005 and committing to sustain this level until at least 2008.
- Using the Environment Agency as the focal point and channelling most of the funding through them.
- Improved planning guidance – but this could still be much improved by making the Environment Agency a statutory consultee.
- Better risk mapping from the Environment Agency to assist planners in understanding flood risk.

How have Royal & SunAlliance and MORE TH>N responded?
Royal & SunAlliance and MORE TH>N have been at the forefront of insurance innovation. The development of our flood risk assessment system for the whole of the UK has given us a market leading tool that allows us to offer protection to as many people and small businesses as possible, while ensuring that the level of risk is properly managed.

When a flood event does occur we can swiftly mobilise our claims staff to be at the scene as quickly as possible. We also have an Emergency Response Unit that is taken to the affected area to provide our customers with a place on their doorstep to get their queries answered. In the recent flood events – Boscastle, Carlisle, Yorkshire - we have been the first insurers on site. This is not a race to get there first but a demonstration of our desire to deliver on our promise, which is what the public buy when they purchase an insurance policy.

Conclusion
We recognise that in a complex issue such as flooding it is the responsibility of all stakeholders including business and the government to work together. As a major insurer, we see our role as offering our experience and expertise to the government to assist it with developing policy to help meet the country's defence needs in the future.

Quote from Foresight Flood and Coastal Defence Report, Sir David King, Chief Scientific Adviser to HM Government and Head of the Office of Science & Technology: "Continuing with existing policies is not an option. We must either invest more in sustainable approaches to flood and coastal management or live with increased flooding."

3. Royal & Sun Alliance and MORE TH>N recommendations

a) Building in flood risk areas should only happen as a last resort.

Reason: Not only are developments planned in areas we know are at risk of flood but building in these areas adds additional pressure on water run off and drainage, increasing the potential for these homes to be flooded. This could lead to homeowners and businesses finding it difficult to obtain insurance.

b) Understanding about resilience of new construction methods needs to improve.

Reason: Many of the new homes built in England and Wales will be using new methods of construction – yet little is known on the flood resilience and reparability of these buildings. The combination of this type of construction and building in flood risk areas could lead to an unacceptable level of risk, making insurance difficult for these properties.

The British Research Establishment is carrying out a project looking at the resilience and repair issues. We want to see this work completed and the output understood before widespread building using these methods takes place.

c) A plan for the future of the Thames Barrier needs to be a priority.

Reason: It is critical that London remains protected to its present level. The Thames Barrier is only designed to give protection to its current level until 2030 and if this level of protection is not maintained beyond that date this will pose a huge risk for London homeowners and businesses. It is essential decisions are made now on how the current level of protection is to be maintained. The substantial development planned behind the barrier only adds to the urgency of this issue.

1,250,000 Londoners already rely on the Thames and Barking Barriers to keep their homes safe.

d) Climate change must be reflected in government spending plans.

Reason: Greater allowance for the full costs linked to the impact of climate change must be reflected in the government's spending plans. This presents a real risk that defences being built now will not be adequate in years to come and statistics show that many more people could be at risk of flood in the future.

The Department for Environment Food and Rural Affairs needs to reset the baseline of £564m and incorporate greater spend to allow for climate change. Climate change studies suggest at least £10 – 30 million more is needed, year on year, starting now, on top of existing increased levels of expenditure.

e) As defences are built there should also be a maintenance programme put in place to ensure the continued effectiveness of these defences.

Reason: Not to do so can only lead to their deterioration which would be a waste of the funding that has been spent, and increase the risk of flooding in these areas. Outside of London the condition of 65% of defences is not known according to the London Assembly Report: London Under Threat, October 2005.

f) Now that the government accepts that the Environment Agency should be a statutory consultee, this must happen as a matter of urgency.

Reason: This would give insurers more confidence that adequate flood prevention or defences are part of any 'new build' scheme in the England and Wales. At the moment the EA does not have to be consulted before new builds take place and if it is, its recommendations are not always accepted.

g) The Environment Agency (EA) needs to complete its flood defence database and make this available to insurers. **It also needs to give insurers clear and specific information on where flood defence building and improvements are taking place and timescales for completion.**

Reason: At the moment there is not a national database for all flood defences. Completion of this will ensure that insurers have up to date information about flood risk in the UK and can offer the best possible terms to their customers. It is also essential if we are to properly implement the Statement of Principles (see page 8) and continue to provide cover to those people in flood risk areas.

h) Ensure Environment Agency (EA) efficiency savings are achieved so that their funds can be invested in flood management.

Reason: The 2004 Spending Review (SR2004) committed to maintaining the level of investment (£564m in 2005/06) in flood protection schemes in real terms by ploughing EA efficiency savings back into flood management expenditure.

Failure to achieve these savings puts at risk the level of investment. The government must have a fall back plan should these savings not materialise, or should costs increase at a greater level than savings being achieved.

4. Questions for the government:

1. How quickly will the Environment Agency (EA) become a statutory consultee and will this happen before there are substantial amounts of new homes built in potential flood risk areas?

2. Will the government take into account research into new construction methods by the British Research Establishment and understand this before widespread building using these methods takes place?

3. The Thames Barrier is only designed to be effective until 2030, what will happen beyond this? How long can we wait to have a decision on how the 1 in 1000 years protection will be maintained?

4. Will the government confirm if the spending review in 2007 is to include sufficient allowance for climate change?

5. Is there a maintenance plan and budget in place to ensure protection continues in those areas where investment has already been spent?

6. When will the Environment Agency Flood Database be available to insurers?

7. What happens if the efficiency savings from the Environment Agency are not achieved? Where will the extra funding come from to maintain levels of investment in flood protection?

5. Background

Due to climatic changes, ageing flood defences, 'inappropriate' property developments (e.g. building on flood plains, over-development of existing sites) and inadequate drainage systems, there has been an increased frequency and severity of flood events from the mid 1990s.

The autumn of 2000 was the wettest in the UK for over 270 years:

- 700 locations experienced flooding, resulting in 10,000 properties being damaged.
- 37,000 properties were saved only by sandbags shoring up riverbank defences.
- The insurance industry bill for the floods was £1.3 billion.

Flood insurance is provided in virtually all homeowners' insurance policies. The UK is one of only a handful of countries throughout the world where this is the case. For example in Austria, Germany and Italy cover for flood has to be purchased as a supplementary cover.

The Deputy Prime Minister referred to the autumn 2000 floods as a "wake up call". There was at that time a concern that insurers may not wish to continue to offer flood insurance and a recognition of the need for flood defences to be improved.

Some two million properties were classified as being at risk from flooding.

The government's Sustainable Communities plan launched in 2003 set out a strategy to build an additional 200,000 homes in the South East of England. Four growth areas were identified - Thames Gateway, Ashford, London-Stanstead-Cambridge corridor, and Milton Keynes-South Midlands. Large parts of these areas are flood risk locations. Many of these homes, some 120,000, are planned for the Thames Estuary floodplain. There is also potential additional flood risk from the increased demands that will be placed on the drainage system.

6. The aftermath of the 2000 floods: How did the industry respond?

6.1 Statement of Principles

The floods of autumn 2000 were the catalyst that led to the Association of British Insurers (ABI) and the Government Flood Agreement, which became the Statement of Principles from 1 January 2003.

In summary, the Statement of Principles states that insurers will continue to provide flood cover for existing customers where flood defences will be built by 2007 to a standard of protection that is at least 1 in 75 years.* For those properties where such a standard already exists, flood cover should be generally available in the market. Where properties are not so protected, and will not be by 2007, it is a matter for insurers to assess each case on its merits. The Statement of Principles is shown in detail in Appendix 1.

How did the government respond?

6.2 Government Spending Review 2002

The key to the continued affordability and availability of flood insurance was the government's funding of the construction of flood defences. After decades of inadequate and stop-start investment, the government announced new plans to raise spending on flood defences and flood risk management in its 2002 Spending Review.

An excerpt from the Spending Review 2002 is included in Appendix 2. The review covered the three years 2003/04 to 2005/06. A summary of the proposed spending and its sources show:

£ million				
	2002/03	2003/04	2004/05	2005/06
Defra	114	122	137	162
Local authorities	280	292	332	382
New funding streams (to be identified)	-	-	-	20
Total	**394**	**414**	**469**	**564**

** in any one year the probability of the event occurring is 1/75 equal to 1.33%.*

6.3 Government Spending Review 2004

In the Spending Review announced in July 2004, the government committed to carrying forward the previous £150 million increase in spending (2005 over 2003).

In a letter to the Director General of the ABI, Elliot Morley, Minister for the Environment and Agri-Environment, confirmed that the £564m for 2005/06 will be the baseline for 2006/07 and 2007/08. He also said that they will review each year whether there is scope for any increase.

In May 2005 Defra produced a document *Flood Management – Target for the 2004 Spending Review Period – Delivery Plan*. Defra states its intention is to see a further 100,000 homes protected by 2008.

No. of additional homes protected by flood defences, 2005 – 2008

2005/06	2006/07	2007/08	TOTAL
40,000	33,000	27,000	100,000

The number of properties being protected is reducing over the years because the costs to protect each house increases as the more difficult schemes are tackled later in the review period. If these figures are achieved it will mean that some 150,000 properties will have been protected over the period 2003/2008.

Based on information from the Environment Agency's National Flood Risk Assessment as at December 2004 the properties in the EA's flood risk categories are:

Flood Risk Categories	Residential and commercial properties (000s)	Number of households (000s)
Low – property vulnerable 1 in 200 to 1 in 1000 (0.1%) annual probability	1,172	1,034
Moderate – property vulnerable 1 in 75 to 1 in 200 (0.5%) annual probability	393	326
Significant – Property vulnerable up to 1 in 75 (1.3%) annual probability	373	284
No data	257	230
TOTAL	2,195	1,875

So at the start of 2005 there were almost 400,000 residential and commercial properties at significant risk of flooding.

6.4 Foresight Flood and Coastal Defence Project– Future Flooding

Carried out by the Office of Science and Technology in April 2004, this project set out to consider how the risks of flooding and coastal erosion might change in the UK over the next 100 years, and to determine the best options to respond to these challenges.

The first key message from the report was that continuing with existing policies was not an option, without the risks growing to unacceptable levels. It also highlighted that the risks need to be tackled across a broad front. So while reductions in global greenhouse gas emissions are required, they would not be sufficient on their own, and we either have to invest more in flood defences or learn to live with the consequences of increased flooding.

If flood management policies and expenditure remain as they are, the UK could expect to see annual losses from river and coastal flooding increasing by between £1 billion and £20 billion, with localised urban drainage flooding increasing this still further.

The report concluded that a wide range of responses was required, including increased flood defence investment, land use planning, resilient construction techniques, and rural water storage. This could result in a reduction from the worst case £20 billion cost to around £2 billion in the 2080s.

Part of the difficulty in assessing future costs lies in the problems of estimating the impact of climate change accurately.

6.5 Policy Planning Guidance (PPG25)

PPG25 was published in 2001 and the Office of the Deputy Prime Minister (ODPM) announced in July 2004 that it was to be reviewed. The ABI, including representation from Royal & Sun Alliance and MORE TH>N, met with ODPM officials in December 2004 to outline the issues we had with the current guidance, namely:

- the size of the document, which means it may not be fully read or easily understood.
- the fact that in practice the Environment Agency is consulted on too few applications. In some parts of England this is less than 60% according to EA research, and at least 20% of cases where the EA has objected are still approved by local authorities.

The ODPM has now acknowledged that the Environment Agency should be a statutory consultee in relation to planning applications in areas of flood risk. Current planning policy guidance (PPG25) is to be replaced with a new Planning Policy Statement – draft consultation will follow later this year.

6.6 Making Space for Water

In July 2004 Defra issued a consultation paper titled 'Making Space for Water', and published the first government response to this in March 2005. 'Making Space for Water' was the government's response to the Foresight report (see Section 6.4) highlighting the need for government to develop a comprehensive and integrated approach to managing future flood risk. It is intended to set the strategy for the next 20 years.

The key points from 'Making Space for Water' are:

- Defra will take action to ensure adaptability to climate change becomes an integral part of all flood and coastal erosion management decisions, with revised guidance to be finalised by the end of 2006.
- to ensure that risk information increasingly drives its activities, Defra will continue to develop the coverage and reliability of such information by including better data (it is as yet unconfirmed what this will be) on the consequences of flooding and coastal erosion events.
- some scoping work will be carried out to determine the practicality of including other sources of flood risk in national mapping (e.g. groundwater, urban drainage and overland flow). If feasible, the requirements will be incorporated in the five year mapping strategy covering the period 2008-13.
- Defra will promote the incorporation of flood resilience and resistance measures in both new and existing buildings. The plan is to complete ongoing research and incorporate the results into updated Building Regulations by 2009. Given that the majority of buildings in the flood plain already exist, a study is to be carried out to determine the feasibility of providing financial support to owners to make their properties more flood resilient/resistant.
- in light of the Boscastle floods in 2004, the Environment Agency will be compiling a register of catchments where the potential speed, depth and velocity of flooding would cause extreme risk to life. It is expected the register will be completed in the autumn of 2005, but no exact date has been given.

6.7 Defra Delivery Plan

In August 2005 Defra issued its delivery plan following the proposals set out in the government's 'Making Space for Water'. This was to enable the production of a final strategy for flood and coastal erosion risk management in England and achieve the vision set out in 'Making Space for Water.'

The key deliverables still to be achieved are:

- Ministerial decision on giving the Environment Agency a strategic overview of all forms of flooding and coastal erosion;
- Ministerial decision on options in relation to adaptation to a changing coast, including realignment;
- strengthened arrangements for development control on the floodplain;
- resilience grants pilot launched and completed and recommendations on resilience published;

- integrated urban drainage pilots launched and completed and recommendations published;
- revised risk management and scheme appraisal guidance published including climate change allowance and multi-criteria decision-making approaches;
- coastal erosion risk maps;
- innovative projects developed following successful launch of the Flood Risk Management Innovation Fund;
- feasibility study on expanding flood warning and risk mapping to other forms of flooding published with recommendations;
- models for taking forward enhanced stakeholder and community engagement published;
- improvements in resilience and emergency planning delivery.

7. The view of the ABI

Royal & SunAlliance / MORE TH>N has played a key part in raising awareness of the flood issues though its own communications activity and has played an active role in ABI working parties.

In April 2005 the ABI produced a Flood Manifesto in the run-up to the General Election. This gave a high level summary on where we were five years ago, what progress had been made and where further work is still required:

The key recommendations of the ABI were:

Where do we need to be?

- Investment needs to continue to rise in real terms.
- Funding needs to take account of the condition and level of defences. London alone needs some £4 billion to upgrade its defences, i.e. eight times the national budget at current expenditure levels.
- Better ways are needed to measure the effectiveness of investment and to see how well and where the flood risk is being managed.
- Planning needs to be strengthened with the Environment Agency having a statutory role.
- The Environment Agency's flood defence database needs to be completed.
- Water companies must use 2005 price increases to address sewer flooding now.

8. How have Royal & Sun Alliance and MORE TH>N responded to the flood issue?

Royal & SunAlliance and MORE TH>N support their customers by providing:

- The ability to identify flood risk at individual address level in order to provide 'fairer premiums' with a Geographical Risk Analysis Tool.
- A bespoke emergency response team permanently on standby to respond to any major weather incidents immediately.
- An Emergency Response Unit for people in areas affected by weather incidents.
- Pre and post-flood advice on the website.

Identifying flood risk

It is critical as an insurer that we can identify the flood risk at an individual property address level. This ensures that the level of risk is accurately reflected in individual premiums and that customers in low flood risk areas are not subsidising those who live in high flood risk areas.

Recognising that information on flood risk was poor, Royal & Sun Alliance decide to produce its own flood map that would be available on each underwriter's desktop and provide them with an up-to-date and accurate assessment of the flood risk at property address level.

The development of our flood map

It was decided that a geographical information system was the appropriate application for investment, utilising a national mapping system that would display unique details at property level associated with topography, contours and other features associated with all watercourses and tidal zones in the UK.

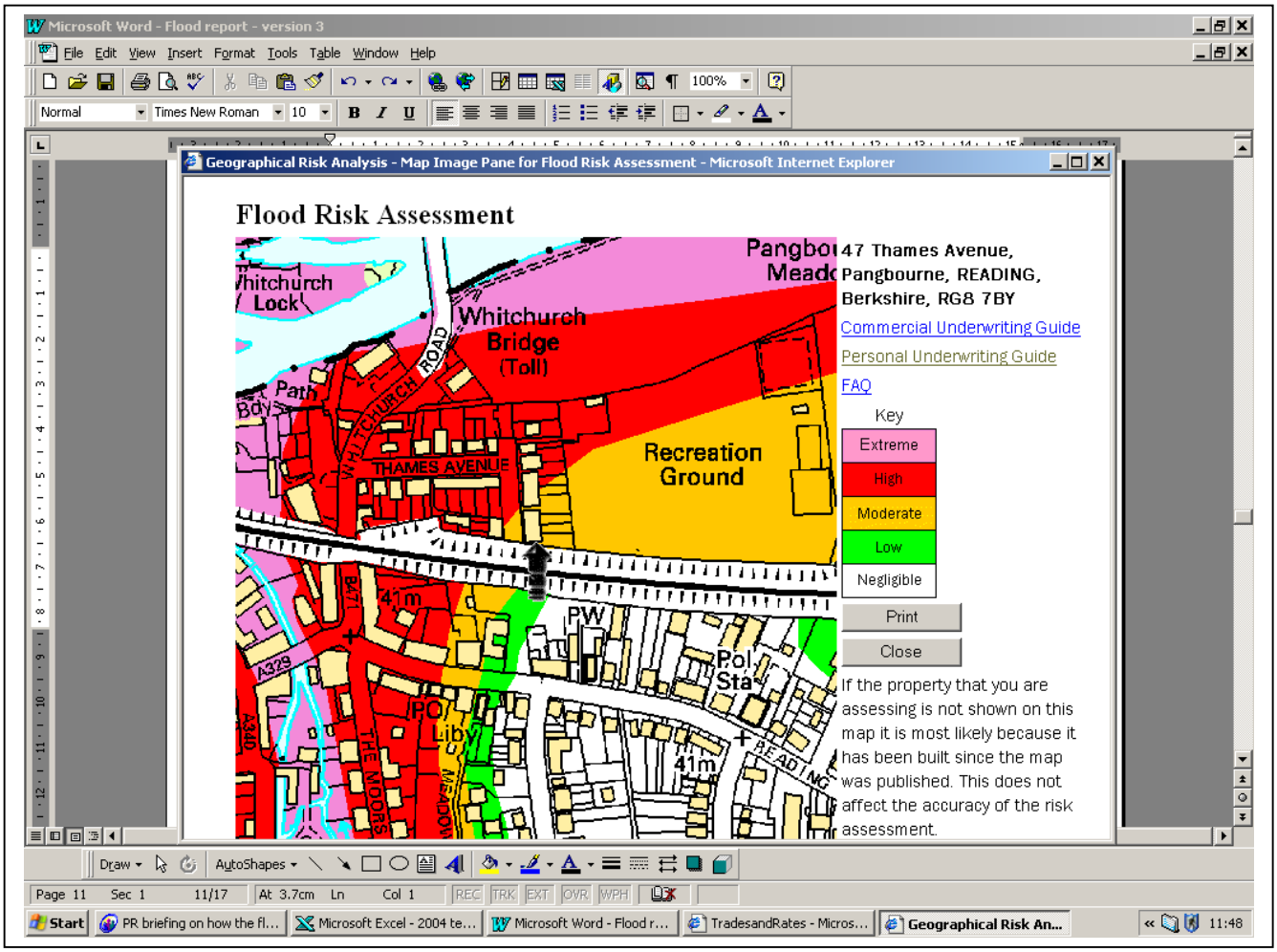
The development of the flood model has been a huge and detailed task, involving:

- the gathering of information about the catchment area of all watercourses.
- understanding the volume of water that can flow through the normal channel.
- ensuring the accurate position of these watercourses.
- an understanding of tidal systems and tidal changes due to variation of climatic conditions.
- the impact of wave heights under storm conditions.
- understanding surface water drainage systems in urbanised areas and how they perform in flood events.
- the combination of all these aspects, overlayed with property address information.

The end result is an accurate flood risk assessment at property level which our underwriters can use to determine whether the flood risk is within acceptable limits, and at what terms the risk should be underwritten.

However, the work does not stop just because the model is built. If it is to continue as an effective risk assessment tool it has to be continually updated and we ensure that this happens.

An example of what our underwriters see:



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The objective is twofold:

- understanding flood risk means we charge the right price for the risk and know when to say no if the flood risk is too high. It therefore protects our business.
- understanding the level of flood risk at address level means we can continue to offer flood insurance to as many people as possible. This ensures both that individuals have the financial protection they need and that the housing market can continue to function.

Flood risk can never be totally eliminated and we accept that flooding will occur from time to time. The essence of an insurance policy is to provide our customers with protection against defined risks should they occur. We therefore see it as critical that we are able to respond to flooding incidents to help our customers through what is a very stressful period, and

manage the restoration of their property – both the physical structure and its contents.

Responding to weather incidents

A well-defined process is in place to monitor when weather-related disaster may be about to strike. Anticipated rainfall, wind speeds and gust levels are all tracked daily in-house as a matter of course. The output of this tracking is the ability to mobilise both our claims centres and in-house Loss Adjusting Service (LAS) to respond immediately. We were the first loss adjusters on the scene during the recent Boscastle, Carlisle and North Yorkshire floods.

During the Carlisle floods in January 2005 Royal & Sun Alliance also gave advice to customers waiting for contact from their own insurers and linked in with the local Council, community leaders and support services to provide additional services in addition to our core activities and responsibilities.

Emergency Response Team
We have a bespoke Emergency Response Team on permanent standby that has responded to all major incidents in the last five years, often being the first loss adjusting service on the scene. The numerous benefits of having an in-house loss adjusting service include:

- Dedicated team servicing our customers only – more efficient than agencies servicing numerous companies;
- Quick access to customer details, leading to quicker handling of claims;
- Visible branding (e.g. 'uniform' worn at the scene) – quick identification by customers.

The Emergency Response Team, supported by the claims units provides:

- Identification of any policyholders in an affected area and pro-active contact with them, i.e. we telephone our customers in affected areas to see if they need help or to make a claim.
- An urgent mobile response for our customers to any major loss or incident within the UK.
- The ability to provide timely assessment, security and emergency assistance, and payment to our customers.
- A visible representation of the insurance industry as efficient and proactive.
- A emergency response unit that can be driven to the affected area and used as an office for the team to work from as well as a point of contact for customers – and often it is the customers of other insurers who come seeking advice. A picture of the response unit is shown on page 6.

Case study (taken from the Mail on Sunday, 20th February 2005):

George West has his contents insurance with MORE TH>N and his buildings insurance with Norwich Union.

George, 54 said there was a sharp difference between the performance of the two insurers in the days after the storm. "MORE TH>N took the situation seriously from the start," he said. "I phoned them at 9am the day after the storm and they had a loss adjustor in Carlisle within two hours. In contrast it took Norwich Union almost two weeks to send someone."

Case Study (taken from the Express on Sunday, 29th May 2005):

Mr and Mrs Nixon were affected by the floods in January 2005 and fortunately they had buildings insurance with Royal & SunAlliance.

Two days after the storms an R&SA representative came to the door to meet them and assess the damage. "It was such a comfort to have someone face to face to reassure us our claim was valid," said Gerald, "We knew we had a policy but when you see your home in tatters it's a worry as to whether the insurance company will pay out. We were given the option to stay in rented accommodation paid for by the insurance company."

Case Study (taken from the Express on Sunday, 29th May 2005):

Jean and Myke Huggon were forced to move into rented accommodation when their home was flooded in January 2005. They had their contents insurance with MORE TH>N.

Myke said, "The insurers were fantastic by sending people to see us and help with our claim."

The contents insurance claim resulted in a £7,000 cash payout and vouchers to replace items ruined in the flood.

Flood advice

We also provide pre-flood and post-flood advice on the MORE TH>N website once an event has been identified. MORE TH>N also plans to issue flood guidance communications to all its customers in a flood risk area during 2006 and to potential customers that we cannot provide cover for because they live in an extreme risk area.

9. Conclusion

We recognise that in a complex issue such as flooding it is the responsibility of all stakeholders including business and the government to work together. As a major insurer, we see our role as offering our experience and expertise to the government to assist them with developing policy to help meet the country's defence needs in the future.

Royal & SunAlliance and MORE TH>N aim to offer affordable premiums to businesses and homeowners wherever possible to enable them to take out protection against unforeseen flooding incidents. But we can only offer such protection if a sustainable and realistic flood prevention strategy has been out in place. We have therefore made the recommendations outlined in page 3:

1. Building in flood risk areas must be avoided and only happen as a last resort.
2. There needs to be better understanding of new construction methods before widespread building using these methods takes place.
3. Decisions need to be made about the future of the Thames Barrier so it can continue to provide current levels of protection to homeowners and businesses beyond 2030.
4. Climate change must be reflected in government spending plans.
5. The level of funding needed to **maintain** defences should be agreed. It would be unfortunate if the money spent on new defences was wasted because defences are not maintained going forward.
6. The Environment Agency must become a statutory consultee as a matter of urgency. We welcome the government's promise in the latest Defra Flood Delivery Plan for this to take place, and we would urge it to happen quickly.
7. Insurers must get clarity about where flood defences are to be built and by when.
8. Ensure Environment Agency efficiency savings are achieved so that their funds can be invested in flood management.

Quote from Foresight Flood and Coastal Defence Project Report, Sir David King, Chief Scientific Adviser to HM Government and Head of the Office of Science & Technology: "Continuing with existing policies is not an option. We must either invest more in sustainable approaches to flood and coastal management or live with increased flooding."

Appendix 1

ABI STATEMENT OF PRINCIPLES ON THE PROVISION OF FLOODING INSURANCE

General policy

It is the intention of ABI members that flood insurance for domestic properties and small businesses should continue to be available for as many customers as possible. The premiums charged and other terms - such as excesses - will reflect the risk of flooding but will be offered in a competitive market.

This statement of principles will apply from 1 January 2003 but is subject to review in the event of significant external shocks such as withdrawal of flood reinsurance. Successful operation of the principles is dependent on planned information on risk levels and investment being available from the relevant flood defence authorities.

Areas currently defended to DEFRA standards

The majority of properties in flood risk areas are already protected to the Department of Environment, Food and Rural Affairs' indicative minimum standard of 1 in 75 years for urban areas, or better. The level to which properties are defended above this will vary considerably and premiums will reflect different degrees of risk; but flood cover will be available as a standard feature of household and small business policies.

High risk areas where improved defences are planned by 2007

In a number of locations the risk of flooding is unacceptably high. Existing flood defences provide less protection than the Department of Environment, Food and Rural Affairs' indicative minimum standard of 1 in 75 years for urban areas. Where improvements in flood defences sufficient to meet these standards are scheduled for completion within the next 5 years, insurers will maintain flood cover for domestic properties and small businesses that they already insure. The premiums charged and other policy terms - such as excesses - will reflect the risk.

If a domestic property in this category is sold the current insurer will continue to provide cover, subject to satisfactory information about the new owners of the property, especially their previous claims record.

Where a small business is sold the current insurer will consider whether to continue to provide cover; this will depend heavily on the proposed new use of the premises and the previous claims record of the new owner.

High risk areas where no improvements in defences are planned

There are other locations where the risk of flooding is unacceptably high - and in some cases they have been shown to flood frequently - and no improvements in flood defences are planned. Here insurers cannot

guarantee to maintain cover, but will examine the risks on a case by case basis, use their best efforts to continue to provide cover and will work with the owners of domestic properties and small businesses which they currently insure to see what action could be taken by the property owner, the Environment Agency and the local authority, which might make the property insurable in some form. This action might include the use of accredited products, flood resilient materials and temporary defences to defend the property.

Action from Government

The implementation of these principles will depend on action from Government as detailed below with an annual review of progress:

- actual expenditure on flood defences to meet or exceed that set out in the 2002 Spending Review;

- implementation of the improvements in the system of flood defence planning set out in DEFRA's consultation "Flood and coastal defence funding review";

- full implementation of PPG25 (Planning Policy Guidance on Development Planning and Flood Risk), with full reporting of the level of compliance by local authorities and consideration of administrative processes in the planned review of PPG25 in 2004;

- the Environment Agency's flood asset database to be available to insurers by the beginning of 2003, and publicly available as soon as possible;

- early improvements in the flood warning system, and implementation of the Cabinet Office's recent emergency planning review;

- full and detailed consideration, including a benefit/cost analysis, to be given to integrated drainage management for England and Wales, similar to that in operation in Scotland;

- implementation of realistic solutions to sewer flooding including increased investment in improvement programmes and adoption of water companies and sewerage undertakers as statutory consultees in the development planning process.

Appendix 2

Excerpt from the SR 2002 report
Chapter 16: Department for Environment, Food and Rural Affairs (Defra)

Raising the standards of flood and coastal defence

16.9 The autumn 2000 floods, the worst in some areas for 400 years, reminded the UK how much damage and disruption large scale flooding can cause. Research has shown that climate change, and changing patterns of land use, may well be increasing the amount of property at risk from flooding and in response to this government investment in flood defence has been rising swiftly in real terms since 1997. That growth will now accelerate: overall, government expenditure on flood and coastal defences will rise by £150 million by 2005-06, equivalent to an average annual real rate of growth of 8.6 per cent.

16.10 Building on the work of the flood and coastal defence funding review, the Government will also explore options for putting in place new funding mechanisms and simplifying the administration of flood defences. The Government recognises that reducing and managing flood risk involves more than simply building flood defences, and will work in partnership with homeowners, local government, the Environment Agency, scientists, the insurance industry and others to achieve this.