



**Name of petitioner**

David Crichton

**Petition title**

Flood insurance problems.

**Petition summary**

Calling on the Scottish Parliament to urge the Scottish Government to represent Scottish interests in the current discussions between Defra and the UK insurance industry.

**Action taken to resolve issues of concern before submitting the petition**

I raised the issues with Michael Russell MSP and Richard Lochhead MSP because they know me from meetings I have had with them on a confidential face to face / one to one basis in the past where I have helped them to understand flood insurance issues. Michael Russell promised to forward the matter to Mr Stewart Stevenson, MSP, but I have not heard from him. I have also raised it with SPICE who I have assisted in the past but have had no response.

I have raised concerns with the "National" Flood Forum of England and Wales and also with the Scottish Flood Forum.

I have written three papers on the subject which have been published on the web site of the Chartered Insurance Institute. They are all open access.

Published April 2012. "Flood Plain Speaking." Chartered Insurance Institute web site. Available at <http://www.knowledge.cii.co.uk/resource/flood-plain-speaking>

Published May 2012. "CII Thinkpiece 73: Is it Possible to Have Sustainable Flood Insurance without Sustainable Flood Risk Management?" Chartered Insurance Institute, London. Available at <http://www.knowledge.cii.co.uk/resource/cii-thinkpiece-73-it-possible-have-sustainable-flood-insurance-without-sustainable-flood-ri>

Published June 2012. "Climate Change and Insurance Adaptation." Pp39-47, CII Report on Future Risks Related to Climate Change and Energy Security. Chartered Insurance Institute, London. Available at <http://www.cii.co.uk/knowledge/policy-and-public-affairs/articles/future-risk-climate-change-and-energy-security-global-challenges-and-implications/19188>

I have been invited to join the discussions with Defra and HM Treasury but the Scottish Government is not represented. These discussions could lead to a UK wide agreement with the insurance industry which will have adverse consequences for millions of Scottish citizens. I simply feel I have a duty to warn that the outcome of the Defra and HMT discussions is likely to be very much against the interests of Scotland.

**Petition background information**

Since 1961, flood insurance in the UK has been the subject of an undertaking by insurers to government. This undertaking has distorted the market and the current version, known as the "Statement of Principles" is due to expire on 30th June 2013. There is concern that this will mean that some 200,000 households in England will no longer be able to obtain household insurance after this date. Potentially some 5.2 million households in England will see premiums increase dramatically and many will not be able to afford to continue their insurance.

Currently the premiums of around 78 per cent of households in high flood risk areas of England are subsidised

to the tune of over £200 million a year by households in low risk areas of the UK. A disproportionate share of this subsidy is paid by Scottish householders, because Scotland has reduced its flood risk dramatically since 1995. Currently 23.1 per cent of English households are at risk of flood compared with 4.5 per cent of Scottish households. There are at least 42 ways in which the flood risk in Scotland is lower than in England.

Defra has refused to contribute to the subsidy and the proposals under active consideration by Defra at the moment would see the subsidies from low risk households continuing and being extended. Scotland would continue to pay a disproportionate share of this cost. Scotland is not being represented in the discussions currently taking place and an announcement is to be made in "Spring 2012" about the subsidy. This may result in flood insurance becoming unaffordable for many low income families in Scotland, as they will have to subsidise wealthy residents of riverside properties in England.

This subsidy will enable property developers in England to continue to develop in the flood plain. 21 per cent of all new properties in London in 2010 were in flood risk areas. Scotland has not allowed flood plain development since 1995 (other than in Moray).

It seems unfair that residents in Scotland are to be forced by Defra and the Association of British Insurers in London to continue to subsidise property developers in London and other parts of England where flood plain development still takes place. Given that Scotland has worked so hard to manage its flood risk well, I propose that the insurance industry should be asked to recognise this and to treat Scotland as a different country bearing in mind the 42 ways in which Scottish flood risk is lower than in England.

Scotland currently has its own 'Statement of Principles' with the Association of British Insurers

<http://www.scotland.gov.uk/Topics/Environment/Water/Flooding/resources/membersofthepublic/Insurance>.

England, Wales and N. Ireland each have their own statements. In each case the statements expire on 1 July 2013.

In the Statements it is agreed that having a Statement is in itself may be problematic. "However, we recognise that the statement of principles may distort the market, hinder the development of specialist flood insurance for the more difficult cases and limit incentives for the uptake of cost-effective resilience measures to protect individual properties." And that steps set out in the Statement were to be taken forward to provide a long term solution without the need for the statement.

The steps that government were "requested" to take included:

- Stricter planning rules to control flood plain development.
- More spending on structural flood defences.
- More resilient building regulations.

In Scotland, Wales, and N. Ireland each of these conditions have been met in full. It is only England which has:

- failed to control flood plain development (which has increased) or
- failed to spend more on flood defences (it has reduced) or
- failed to make building regulations more resilient (they have been relaxed).

There is no way the insurance industry will renew the Statement with the Scottish Government because they have been let down so badly by the government in England. This would not be in the best interests of Scotland anyway.

I am not asking that the Scottish Government try to renew the Statement of Principles, I am simply trying to warn them that the likely outcome of current negotiations in London is a "pooling arrangement" under which Scottish property owners will be expected to continue to subsidise flood risks in England to enable English property developers to continue to build in English flood plains. The current subsidy is between £200m and £265m per year of which a disproportionate share is paid by Scotland.

A general principle of insurance is to spread risks, but it is also a general principle that premiums should relate to the extent of the risk. You would not expect a 19 year old with two drink driving convictions to pay the same for motor insurance as a 45 year old with a clean licence. Similarly you would not expect Scottish policyholders to subsidise the flood insurance for the Netherlands. So why should Scotland subsidise a country which persists in allowing continued flood plain development?

This will result in an increasing discrepancy between the number of properties at risk of flood in England and the number at risk in Scotland. This in turn will require an increasingly high level of subsidy from Scotland to England. Climate change will accelerate this process.

Insurers are mainly concerned about English flood risk. Once the insurance industry in London has made an agreement with Defra, that agreement will apply to Scotland, Wales and NI as well and there is not much the Scottish Government will be able to do about it. However if Scotland was to react strongly at this stage before agreements are "set in stone" – for example by stressing the 42 ways in which Scottish flood risk is lower than in England and asking insurers to underwrite Scottish risks separately on their own merits, as if Scotland was a separate country, then it may not be too late.

See also: Sunday Herald 12 Feb 2012. Revealed: how Scots are subsidising housing in English flood plains

### Related information for petition

For a table showing 42 important ways in which the flood risk is lower in Scotland than in England see table 7 in <http://www.cii.co.uk/knowledge/claims/articles/flood-plain-speaking/16686>

### Do you wish your petition to be hosted on the Parliament's website to collect signatures online?

YES

### How many signatures have you collected so far?

0

### Closing date for collecting signatures online

11 / 08 / 2012

### Comments to stimulate online discussion

#### The petitioner

David Crichton has a number of years experience in the insurance industry, latterly as a consultant advising insurers and governments in four continents. He is a founder member of every Flood Liaison and Advice Group in Scotland. At one time these groups covered 94 per cent of the Scottish population and thanks to support from the Association of British Insurers were instrumental in putting an end to Scottish flood plain development. Now that this policy is embedded in planning strategies there is no longer such a need for FLAGS but many still meet regularly.

Crichton has advised the ABI, the Irish Insurance Federation, OECD, NATO, NOAA, USGS, and the UN. He is the author of 32 published books and 42 academic papers on insurance and climate change. He has been the sole author of the CII Flood Fact File since 2004. This is the most comprehensive and up to date book on UK flood risks, and circulation is limited to CII members. The 21st edition of the Flood Fact File was published in January 2012.

#### Affiliations include:

- Hon. Visiting Professor, AON Benfield Hazard Research Centre, University College London. This is the leading hazard research centre in Europe, specialising in natural disasters and insurance.
- Hon. Visiting Professor, Middlesex University Flood Hazard Research Centre, London.
- Honorary Research Fellow, University of Dundee, the home of the first UNESCO water research centre in Europe and the British Flood Insurance Claims Database (the biggest such database in the world).
- Fellow of the Chartered Insurance Institute.
- Chartered Insurance Practitioner.

Please note that this petition reflects the author's personal views and does not necessarily reflect the views of the Chartered Insurance Institute or any of the above organisations.

## Supplementary evidence from Professor David Crichton

Hon. Visiting Professor, AON Benfield Hazard Research Centre, University College London.

Hon. Visiting Professor, Middlesex University Flood Hazard Research Centre, London.

Honorary Research Fellow, University of Dundee.

Fellow of the Chartered Insurance Institute and Chartered Insurance Practitioner.

Former member of the Research Committee of the Scottish Executive Building Standards Advisory Committee.

Author of numerous published books and articles on flood insurance.

Founder member of every Flood Liaison and Advice Group in Scotland.

Any comments are personal views

## The problem:

Percentage of new building in areas at risk of a 100 year flood.

Year	South East (%)	Yorkshire and Humber (%)	London (%)	Average for England (%)	Total for Scotland and N. Ireland *
2007	5	14	16	8	0
2008	5	14	23	9	0
2009	9	10	21	11	0
2010	5	11	21	9	0

Source: Prof. David Crichton. "Flood Plain Speaking" Chartered Insurance Institute 2012  
 Figures compiled from Table P251 published by the Department of Communities and Local Government, 2011.  
 \*Scottish figures exclude the county of Moray which still allows flood plain development.  
 The Welsh Environment Minister has instructed planners to resume flood plain development.  
 Welsh figures are not available

## The consequence:

### Huge flood exposure in England and Wales by 2011

100 year return period river, coastal and surface water, excluding dam break.  
 (Scottish figure for 100 years is negligible so 200 year figure is shown.)

Country	At-risk households (000)	Proportion of existing properties at risk	Proportion of new build in flood hazard areas in 2011 *
England	5,200	23.1%	11%
Wales	357	27.9%	Not known
Scotland	109	4.54%	0% after 1995
Northern Ireland	46	5%	0% after 2006

Source: Prof. David Crichton. "Flood Plain Speaking" Chartered Insurance Institute 2012  
 Compiled by Crichton using data from:  
 Office for National Statistics, the Environment Agency, DCLG, the Welsh Assembly,  
 the Scottish Government and the Northern Ireland Rivers Agency.  
 \*Scottish figures exclude the county of Moray which still allows flood plain development.  
 The Welsh Environment Minister has now instructed planners to resume flood plain development.

# The subsidy:

In a Commons written answer on 7<sup>th</sup> September, Richard Benyon, Secretary of State for Environment, Food and Rural Affairs said:

*"Industry figures suggest that the cross-subsidy is around £150 million per year and that on average each high risk household benefits from a £430 (per year) cross-subsidy."*

This would imply a total of 350,000 high risk households.

The government's definition of 'high risk' has not been disclosed, but we do have 100 year return period flood figures for England and Wales.

This produces a total of 5.7 million at risk households of which 91% are in England.

Hansard. Written Answers, 7 Sep 2012 : Column 515W

<http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120907/text/120907w0003.htm>

last accessed 10.9.12.

Country	Total households (000)	Households at risk of 100 year river, coastal or surface water flood (000)	Households at risk as % of UK total at risk. (%)	Total subsidy given (£m)	Low risk households paying subsidy (000)	Low risk households as % of UK total low risk. (%)	Subsidy from low risk households by country (£m)	Net gain (loss) for each country (£m)
<b>England</b>	22,520	5,200	91.04	136.56	17,320	81.2	121.8	14.76
<b>Wales</b>	1,280	357	6.25	9.375	923	4.3	6.5	2.875
<b>Scotland</b>	2,410	109	1.91	2.865	2,301	10.8	16.2	(13.335)
<b>N. Ireland</b>	830	46	0.8	1.2	784	3.7	5.5	(4.3)
<b>UK</b>	27,040	5,712	100	150	21,328	100	150	0

#### Notes:

Assumes the defra figure of £150m annual subsidy is correct. I calculate it is in excess of £200m, based on confidential industry sources.

Assumes the subsidy is distributed in proportion to the distribution of properties at risk of a 100 year return period river, coastal, or surface water flood.

Figures exclude properties at risk of dam break (estimated at a further million properties, 74% of which are in England or Wales).

100 year flood figures for Scottish households are negligible so the 200 year return period flood is shown for Scotland and 100 years for other countries.

Scottish figures exclude Moray.

## The References:

1. Crichton, D. 2012. "CII Thinkpiece 73: Is it Possible to Have Sustainable Flood Insurance without Sustainable Flood Risk Management?" Chartered Insurance Institute, London. <http://www.cii.co.uk/knowledge/policy-and-public-affairs/articles/cii-thinkpiece-73/18533>
2. Crichton, D. 2012. "Flood Plain Speaking" Third Edition. 56pp. Chartered Insurance Institute, London. Open access from 21 August 2012: <http://www.cii.co.uk/knowledge/claims/articles/flood-plain-speaking/16686>
3. Pryce, Gwilym, Chen, Yu and Galster, George (2011) 'The Impact of Floods on House Prices: An Imperfect Information Approach with Myopia and Amnesia', *Housing Studies*, 26: 2, 259 — 279
4. John O'Neill and Martin O'Neill 2012, "Social justice and the future of flood insurance" Joseph Rowntree Foundation, York. <http://www.jrf.org.uk/publications/social-justice-flood-insurance> accessed 18.9.12.

## **The Crichton Three Point Plan.**

### **A cheap, simple, quick and popular three point plan to limit increases in flood insurance costs in Scotland.**

1. To ask the First Minister to write an open letter to the Association of British Insurers and chief executives of each of the major insurance companies to remind them of some of the 42 important ways in which the flood risk in Scotland is lower than in England<sup>1</sup> and asking their underwriters to recognise that the UK is not a homogeneous risk and that Scotland and Ireland should
  - a. have their own flood insurance pool, separate from England and Wales.
  - b. be exempted from 'bluelining' for any council area which has established, or participates in, a Flood Liaison and Advice Group with insurance representation.
2. To ask the Scottish Government to produce proposals to implement current building standards retrospectively in respect of insurance repairs following flood or storm damage. Scotland already has excellent resilient building standards for new build. Scotland could easily apply current building standards retrospectively to the repairs of any properties damaged by flood or storm. The primary legislation is already there.<sup>2</sup> This would enable and require insurers to adopt a resilient reinstatement policy to adapt existing building stock in Scotland for climate change after a flood or storm claim at no cost to the taxpayer. Insurers have told me they would welcome this if there is the level playing field of legislation.<sup>3</sup> Over time, a more resilient building stock would produce lower flood and storm claims costs despite climate change. It would also reduce the amount of building material going to landfill after a flood or storm and the embedded energy costs of making new building materials. This would reduce emissions and improve Scotland's adaptation to climate change.
3. To ask HM Treasury to seek ways to ensure that any government flood levy collected in Scotland be spent entirely within Scotland to help low income families in flood hazard zones. Ideally to fund Scottish insurance with rent schemes for household contents especially for social housing.

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<sup>1</sup> Table 7 of Crichton, D. 2012. "Flood Plain Speaking" Third Edition. 56pp. Chartered Insurance Institute, London. Open access from 21 August 2012: <http://www.cii.co.uk/knowledge/claims/articles/flood-plain-speaking/16686> last accessed 10.9.12.

<sup>2</sup> Dr Phil Cornish, Scottish Executive. Personal communication, August 2002.

<sup>3</sup> Clark, M., Priest, S. J., Treby, E. J., Crichton, D., 2002 "Insurance and UK Floods: a strategic reassessment." A Research Report for the "TSUNAMI" Project, University of Southampton, England.