

Flood Resilient Construction – Responsibility Post Loss

The recent severe flooding in Cumbria and other areas, as a result of storm Desmond, together with a series of previous major events over the last decade, has highlighted considered expert opinion that the future flood risk in the UK is both inevitable and increasing.

According to the Association of British Insurers (ABI) there are 5.2 million properties at risk of flooding in the UK. With sea levels rising there is an increased risk of coastal flooding. The frequency and severity of rainstorms is also predicted to increase, which also raises the risk of inland flooding. It is reported that without significant investment, climate change will result in 500,000 more properties being at “significant risk” of flooding by 2035.

Four out of five of the wettest years on record have occurred since the year 2000, each with significant cost to insurers. The December 2015 flooding is also estimated to be one of the most costly events:

- 2007 - £3 billion
- 2009 Cumbria floods - £200 million
- 2012 - £594 million
- 2013/14 winter - £440 million
- 2015 North West - £325 million (estimated)

We have recently seen renewed debate in the UK insurance market, specifically concerning flood resilient building repairs. This follows the publication of a report in May 2015, by the Chartered Insurance Institute Claims Faculty New Generation Group, entitled “Coordination of Flood Response”. This report looks at ways to improve the overall response to major flooding events. It considers on the ground activities after a flood and provides recommendations on what the insurance industry can do to help. The report contains 21 recommendations. There are two recommendations that particularly concern flood resilient construction and how this might reduce the risk of future damage.

Recommendation No 8 proposes that the ABI should establish a working party of relevant experts and central Government to consider how a Flood Risk and Resilience Certificate could be developed. The intention being that insurers would

take account of such certificates when rating for property insurance. This would provide each property with a risk rating, similar to the current EPC (Energy Performance Certificate) that is required at the point of sale.

Recommendation No 21 advises that Insurers should form a working party with Loss Adjusters and the Royal Institution of Chartered Surveyors to establish training for surveyors in flood resilient construction / repair concepts and the deployment of such methods in flood claims.

These recommendations have sparked debate in the loss adjusting arena with the Chartered Institute of Loss Adjusters commending the wider report and highlighting that Loss Adjusters are recognised experts in advising on flood resilient repairs, as part of the reinstatement proposals post loss.

There are two areas of physical flood risk improvement:

1. Flood resistance - comprising measures to keep the water out, including a variety of temporary physical barriers that can be placed around a property or across door / window openings and service ducts.
2. Flood resilience – construction methods designed to minimise the scope of loss after water has entered a property.

It is the latter consideration, flood resilient construction measures being incorporated in the repairs following a flood event, which is the source of the debate.

Flood resilient construction techniques include the use of building materials and construction techniques that can resist the effect of water over a period of time or that allow drying without necessitating replacement. Examples of flood resilient construction include:

- non-porous materials, including the type of bricks used in external walls
- kitchen units made of stainless steel
- ceramic floor tiles
- services located above the predicted flood level (e.g. boilers, electrical distribution boards and power sockets)
- avoiding timber frame insulated construction that will entrap moisture

There are several benefits that can be achieved by modifying the specification of repairs to include flood resilience:

1. Reduce the scope of physical damage caused in a subsequent flood.

2. Reduce the time that occupants are out of the property or that the business is unable to trade.
3. Reduce the cost of future flood repairs by up to 80%.
4. Potential reduction of insurance premium for flood risk.

At Concordia, it is our view that a collaborative approach between the loss adjuster and the surveyors who are responsible for preparing the schedule of remedial work, is the preferred option.

Whilst the loss adjuster has overall responsibility for the claim and should certainly propose the consideration of flood resilient measures when handling any flood claim, we believe that the surveyor has responsibility to their client for the overall specification. Continuous improvement in the level of technical knowledge and keeping up to date with new flood resilient construction methods is of paramount importance to both loss adjusters and those surveyors who are involved with flood damage reinstatement.

By the respective professionals working together, in the best interests of both the policyholder and Insurers, it should be possible to achieve positive progress in the development and deployment of flood resilient techniques. It is also important to remember that the risk of flooding continues to increase.

There are some difficulties to overcome.

Who pays?

This is the awkward question. Our Insurer clients advise that they are keen to promote the use of flood resilient methods in any post flood repair scheme. If it is cost neutral, most Insurers will pay for the change in specification.

The difficulty arises where there is an increase in cost by changing the specification from repair as existing to incorporation of flood resilience. Whilst this will reduce the scope of any future flood loss, there is no guarantee that the policyholder will renew with the same Insurer. It is our experience that most Insurers will encourage the use of flood resilient repair methods and they may also be able to offer favourable renewal terms, which could be attractive to their policyholder. They are unlikely, however, to fund any additional cost in the actual repairs.

Some Insurers have paid for a flood resilient survey of a property that has suffered a loss. Their intention being to encourage the policyholder to adopt the survey recommendations.

Why is the take up low?

Despite the encouragement being offered by Insurers and loss adjusters for policyholders to introduce flood resilience in their post flood repairs, the take up is currently much lower than expected. One of the reasons given for this is that policyholders are concerned that flood resilient measures highlight the risk of future flooding and can blight the value of their property. In reality, of course, these measures improve the risk and should increase the value of their property, compared with others in the same location.

The Government have pledged a fund of £50 million for families and businesses affected by the December 2015 floods in Cumbria and Lancashire. The fund will be paid to Local Authorities and is mainly to be used in the form of grants of up to £5000, payable to householders to help make their properties more flood resilient in the future. It will go some way towards reducing the risk and the cost of future flood damage in this high risk location. It remains to be seen whether additional funding will be made available, in the form of Government funded grants to other high flood risk areas. It would seem unlikely that this will be considered outside of a local post-flood situation.

It is interesting that other countries in Europe are facing the same dilemma. In Germany, the German Assurance Association has recognised that the best protection that people can get is prevention together with insurance. Insurers require flood resilience certificates – HochwasserPass, before insuring properties in four risk bands. These certificates are issued following a survey and after recommended improvements have been carried out.

We believe that there is much to be done with regard to education and reassurance in both the domestic and commercial property insurance market, to promote acceptance and the use of flood resilience. The CII proposal for a compulsory Flood Risk and Resilience Certificate for all properties might be the way forward.

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