

Flood Insurance Provision and Affordability

Beyond the Statement of Principles: Implications for Scotland





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EXECUTIVE SUMMARY

Background to research

This survey makes a preliminary assessment of possible social implications in Scotland of changes to the flood insurance market that may follow the end of the Scottish Statement of Principles on the provision of Flood Insurance. The Statement was agreed between the Scottish Government and the Association of British Insurers (ABI) in December 2008 and is due to finish in July 2013. It has both secured the availability of flood insurance to communities at risk of flooding in Scotland, and ensured that the Scottish Government has invested in flood risk management measures during this period. The ABI have made clear that they do not intend to renew the agreement owing to their belief that it prevents the development of a free market in flood insurance.

Objectives of research

The project had the following specific objectives:

- To assess the current prices paid for flood insurance in areas potentially vulnerable to flooding in Scotland;
- To determine the likely impact of the cessation of the Statement of Principles on flood insurance in 2013. In particular:
 - to identify communities that are likely to be affected by changes in insurance availability and cost using SEPA maps and details of recent flooding events and appropriate indices of multiple deprivation;
 - to identify whether particular categories of households would be affected by any changes in insurance availability and cost;
 - to achieve this by carrying out a survey of the different socio-economic groups to identify these trends and holding a small number of workshops to explore issues identified in more detail.

Research Summary

- Average prices paid for insurance annual premiums in the sample (157 households) were £398 across all areas for those with combined building and contents insurance, £243 for those with separate building insurance alone and £157 for those with contents alone.
- The Statement of Principles has had the effect of cross subsidising insurance in flood risk zones. Published ABI figures applying to the UK indicate that this cross subsidy amounts to as much as £430 per household to the 'significant risk' zone of greater than 1 in 75 year probability of a flood, from households outside this zone. However, this cross subsidy is not, at present, transparent to the public, since any information on risk is privately held. In other words, insurance policy holders do not at present know how much they are being charged to provide this cross subsidy. This transparency is likely to increase with the advent of more detailed public information on flood hazard in 2013 in the form of SEPA's flood hazard and flood risk maps.
- The survey results indicated three groups that have particular potential difficulties with meeting costs of extra insurance, alone or in combination

- Those on low incomes (below £16000 and particularly below £11000 per annum);
 - The elderly (over 70, and particularly over 80);
 - Non-homeowner households (particularly those in local authority and/or housing association accommodation).
- Lower-income groups, below £11000 p.a. per household for the main earner, declared the highest difficulty in meeting hypothetical increased values for future premiums and excesses. For premiums, the typical value at which a rating of 'difficult' was noted was for an annual premium increase of £100-£200 for combined building and contents insurance, and £100 for contents insurance. For excesses, equivalent levels of difficulty were reported at a £1000 excess for combined policies and £500-£1000 for contents-only policies, among this group. The lowest income group surveyed (less than £5500 per annum) reported that it would be 'very difficult' to meet an excess demand of £500 for a claim of £30000, although sample size was very small in this group. All income groups reported that meeting an excess of £10000 on such a claim would be 'very difficult' or 'difficult', findings that were reinforced by comments in focus groups.
 - The lower income and non-homeowner groups were also the most likely to have no insurance at all at present, reinforcing findings from earlier research.
 - Even in much higher income groups, at up to £55000 p.a. for the main earner, large increases in premium (£500 per annum) or excess (£10000), difficulties were reported in potential affordability.
 - Older people (over 70) and those in the rented sector reported generally higher potential difficulties with higher costs for both premiums and excesses, although the trend was less clear cut than for income.
 - From consultation with the insurance industry, homeowners with insurance will continue to have cover made available to them after July 2013, but this is likely to be qualified in a number of ways. In high risk areas (greater than 1 in 75 year probability) premiums and/or excesses are likely to rise towards the 'true' market price.
 - A particular area of concern expressed by insurance industry representatives is that they have had difficulty to date in accessing information on improvements which may substantially reduce the flood risk for individual properties in a format that would enable those data to be used for commercial purposes. A further concern is quantifying the risk of surface water flooding, with no available national map of surface water flood risk. However, the situation may soon change with the planned update of SEPA's Indicative River and Coastal Flood map and the development of Local Flood Risk Management Plans by 2016.
 - GIS analysis using the incomes index from the Scottish Index of Multiple Deprivation (SIMD) indicated that both very low and high deciles of the index were under-represented in the flood risk zones delineated by the SEPA Indicative Fluvial and Coastal Flood map (Scotland). However, numbers in the most deprived 15% still amounted to a total of over 41,000 individuals at risk. In percentage terms this works out at around 14% of all persons estimated as living in at-risk areas, a proportion which is close to the overall national percentage of residents classed as income deprived (15.1%) according to the SIMD data set. This should be regarded as an estimate based only on the most income deprived groups. The real impact of changes to the insurance market may be greater if such changes impact on groups



outside the most income deprived, as the survey suggests it might. However, the extent to which there is impact clearly depends on how much costs rise, which remains very uncertain.

Focus group findings also indicated that some participants who did not require insurance - particularly those with contents-only insurance, would be willing to forgo this cover if prices went up by more than they were prepared to pay. Among homeowners, issues about the mortgageability of property as well as the lack of the freedom to move, due to the effect of the changes in the insurance market on property transactions, were voiced as major concerns.

1 Introduction

1.1 Background to the research

Flood insurance in the UK is entering a period of transition. Hitherto, the market has been governed by the 'Statement of Principles on the Provision of Flood Insurance' made by the UK Government and the Association of British Insurers (ABI), in 2008. This was the successor to an arrangement - termed the 'Gentlemen's Agreement' - between the industry and the UK Government from the early 1960s, whereby the market would provide insurance with no need for direct central subsidy. These agreements have been vital, given the numbers of properties at risk of flooding, the importance of insurance to the mortgage market, and consequently wider housing markets in the UK.

A separate joint Statement for Scotland was formulated between the Scottish Government and the ABI, also in 2008. The five year duration of the Scottish Statement will expire in July 2013.

The Statements covered a number of joint commitments:

- The ABI undertook to continue to provide, via its members, flood insurance for domestic properties, built before 2009, as a feature of standard household policies, provided the flood risk were not significant. ('Significant' has been regarded in general terms by the ABI as no worse than a 1.3% or 1 in 75 annual probability of flooding).
- The ABI also committed to continuing to provide flood cover for domestic properties and small business customers at significant flood risk, provided that the local authority had announced plans and notified the ABI of its intention to reduce the risk to a level below significant within five years. (In Scotland, local authorities are legally responsible for delivery of flood risk management measures).
- Properties at risk of more frequent flooding could still obtain insurance, but this could require higher premiums and excesses.
- For its part, the Scottish Government offered several commitments, including: improved flood risk assessments; legislative changes (the Flood Risk Management (Scotland) Act 2009); reviews to planning policy, building design and encouragements given to homeowners to take steps to protect their homes.

Looking forward, the Scottish Statement noted that:

The ABI and the Scottish Government agree that implementing these measures over the next five years should ensure that flood insurance continues to be as widely available as possible without the need for the statement of principles from 1 July 2013 (para. 5).

1.2 Purpose and structure of this report

This report focusses on the potential impacts of transiting away from the Statement of Principles to different arrangements in the future for insuring properties in areas at flood risk in Scotland. There is inevitably an element of speculation given the uncertainty of future policy direction at the time of writing. Also, it should be noted that flood insurance policy is a reserved matter. As such, it is highly likely that the new arrangements which are eventually made for Scotland will be subject to any revised agreement or policies negotiated and formulated by the UK government.

The specific objectives of this report are twofold:

- To assess the current prices paid for flood insurance in areas potentially vulnerable to flooding in Scotland;
- To determine the likely impact of the cessation of the Statement of Principles on flood insurance in 2013. In particular:
 - to identify communities that are likely to be affected by changes in insurance availability and cost using SEPA maps and details of recent flooding event and appropriate indices of deprivation;
 - to identify whether particular categories of households would be affected by any changes in insurance availability and cost;
 - to achieve this by carrying out a survey of the different socio-economic groups to identify these trends and holding a small number of workshops to explore any issues identified in more detail.

The report thereby provides data that will assist in setting a framework for possible undertakings by government and the insurance industry that can secure the future availability of insurance for individuals and communities at risk of flooding. Such insurance is known to be a vital part of reducing the social impacts of a flood event and of living with flood risk (Werritty et al., 2007). Moreover, the socially vulnerable are known to be more exposed to the potential *consequences* of flooding and are also less likely to be insured in the first place, raising challenging questions in terms of social justice (Werritty et al., 2007; Houston et al., 2011; O'Neill and O'Neill, 2012). The focus of the work is, therefore, on the potential social implications of the lapse of the Statement for communities at flood risk in Scotland. Impacts on businesses are not studied (although it should be noted that the Statement did extend also to small businesses).

2 METHODOLOGY

2.1 Questionnaire survey

OVERVIEW

The questionnaire survey was designed to elicit information on social characteristics of residents in at-risk areas alongside the affordability of future changes in policy premiums and excesses for flood insurance.

The questionnaire schedule, sample characteristics and full results are reproduced in Appendices 1-3. The questionnaire had five sections, covering the different insurance types that respondents might hold. Most residents within the sampling frame needed to complete only two of the questionnaire sections: a short section asking for personal and household information and a section relating to their particular type of insurance cover, whether combined, or separate policies for building and contents. In order to keep the questionnaire as succinct as possible, a number of issues that would have required complex questioning were omitted and explored in more detail in focus groups.

The core of the survey was a set of questions exploring affordability of future changes in home flood insurance. Following accepted practice in social research on affordability, questions in this part included a number of scenarios covering different increases in both flood insurance premiums and excess. The questions were organised as follows:

- Respondents were first asked whether or not their insurance premium and, separately, excess, had increased over a three year window (chosen for ease of recall), and whether any of the claims had been for flood damage that was not due to internal factors to the building, such as burst pipes or faulty appliances.
- Hypothetical premium and excess increases were then presented and respondents were asked to rank their ability to pay for each increase on a 1 (easy) to 5 (very difficult) scale. The premiums and excess increase levels were based on anecdotal evidence from previous work such as Werritty et al. (2007) and O'Neill et al. (2012) of the possible increases that might be faced by households that had actually been flooded and were subsequently renewing their insurance.
- Respondents were then asked to fill out a box with the maximum premium or excess that they would be able or willing to pay, followed by a question with multiple possible responses as to what they might do if the amount increased beyond this level. For excess, participants were asked how much they could tolerate paying on an imaginary claim for £30000, which is a typical value for a flood damage claim (Penning-Rowsell et al., 2005).

Premium and excess were, of necessity, viewed separately in this methodology, but it was recognised that both would be factored in to decisions of this nature. For example, participants might be more willing to tolerate a high excess if their premium increase was limited by the increase in excess. Therefore, this area, too complex to analyse in a short questionnaire, was also left to the focus groups for more detailed investigation.

SURVEY SAMPLING

Questionnaires were administered to households in at-risk areas where the area was known to have been flooded in the past three years. Within these initially targeted areas, a GIS approach was then used to create random lists of addresses for survey sampling. The approach used approximated insurers' procedures in deciding whether or not properties are at flood risk. Ordnance Survey ADDRESSPOINT® data supplied by the Scottish Government GIS unit were used to extract coordinates for individual addresses within the initial areas. These addressees were then overlaid on flood zones created for the Indicative River and Coastal Flood Map (Scotland) by the Scottish Environment Protection Agency. Two types of flood zone extent were used, those with a 0.5% or 1 in 200 year annual probability of fluvial flooding (version 2), and zones with a 0.5% or 1 in 200 annual probability of coastal flooding (version 1) (see fig 2.1). Addresses in the initial areas falling within both types of flood zones were then randomly selected, and households at those addresses were mailed a survey questionnaire.

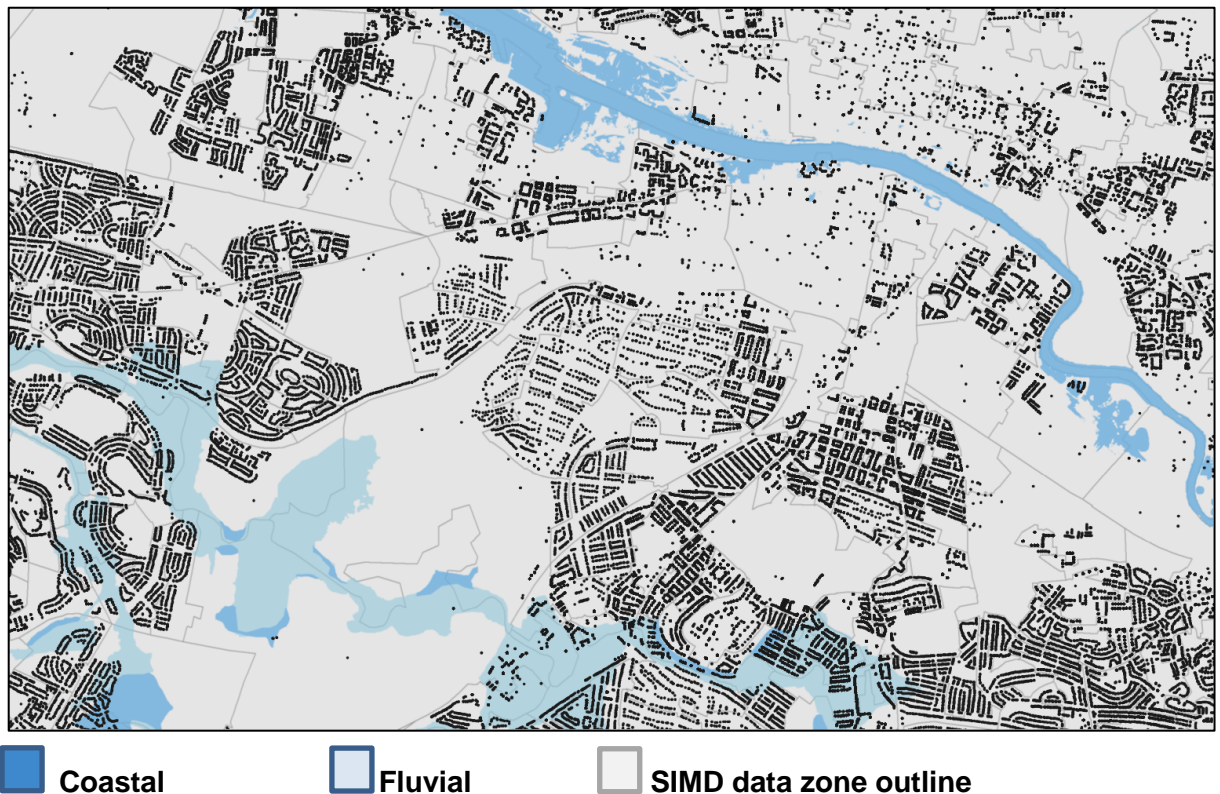


Figure 2.1 Methodology for address selection within flood risk envelopes from the SEPA Indicative Fluvial and Coastal Flood Risk Map (Scotland) and for developing socio-demographic profiles for comparison to survey data. SIMD outlines show the extent of data zones within which ADDRESSPOINT data (shown as black points) was used to develop weighted national indices (see text, section 2.2). The fluvial and coastal outlines are for 1 in 200 year events.

Finally, more detailed information on locations of historical flooding was used, where available, to supplement the information from the indicative map and target questionnaires to those who might already be experiencing issues with insurance costs. For example, biennial

flood reports compiled by local authorities, allowed targeting of questionnaires down to street level in some areas that had experienced flooding in the last three years. Also, for one local authority (Renfrewshire), a georeferenced database was available on locations at which pluvial and surface water flooding has occurred over the same timescale. A simple buffer analysis was carried out around these locations, using addresses within a 25m radius of the recorded points for the survey. Though this is an arbitrary distance, it did ensure that respondents in areas subjected to pluvial (drainage surcharge) flooding were also targeted within the survey. 1678 questionnaires in total were sent out by a combination of postal and hand delivery. 157 returns were received giving a return rate of 9.4%. Survey locations are shown in fig 2.2.

QUESTIONNAIRE SURVEY DATA ANALYSIS

Responses from the questionnaires returned were compiled into a single survey data set. A first stage of the data analysis was to ascertain whether the sample survey respondents were representative of the overall population of residents in Scotland, particularly important given the limited sample size possible from this type of survey. Subsequently, the nature and strength of relationships between insurance costs, recorded social characteristics, and housing tenure, were analysed. Because the questionnaire asked respondents to both grade the affordability of various premium and excess costs, as well as express maximum willingness to pay (WTP), both could be analysed by cross tabulation according to such other variables as income, age and household tenure type.

2.2 GIS Analysis

The GIS analysis provided the basis for a national-scale assessment of the social composition of flood-risk areas. In turn this provided a basis (albeit imperfect) to extrapolate the survey results to the likely impacts of changes in flood insurance provision and affordability across Scotland as a whole.

A key consideration here was whether areas in which levels of deprivation are high are also more likely to be exposed to risk than areas where deprivation is lower. Other studies in an environmental justice vein have shown this risk-deprivation relationship to exist for other kinds of environment-related risk, such as incinerators and landfill sites. However it is also known that the risk zones for flooding are rather different compared to these other hazards. In addition, analysis of the Scottish Household Survey data has indicated that people in more deprived areas are less likely to carry home insurance (Poverty Site, 2012).

For the GIS analysis, the SIMD (see above) was again used. The SIMD provides a consistent Scotland-wide, approach to measuring material deprivation at a small area (data zone) level. The most recent SIMD data available, for 2009, were used.

The SIMD is intended to capture and summarise multiple dimensions of deprivation, these dimensions being measured within separate so-called 'domains'. One such domain is income - i.e. concerning income deprivation, based on receipts of state-related support by/for individual residents. Included in the SIMD dataset are rankings of data zones

according to this income domain, with top rankings indicating data zones in which income deprivation is highest and vice versa. In addition actual counts of persons for whom income support is claimed are also included, aggregated to data zone level.

Data zone geography completely partitions Scotland, and was also designed to try to equalize the number of inhabitants per data zone. However data zones intersect with flood risk zones in differing ways, some being completely enclosed within the latter but others overlapping only to a minor extent (see fig 2.1). This, together with the fact the SIMD data cannot be disaggregated at sub-data zone level, makes analysis of the potential deprivation-risk relationship more complicated. Population is not evenly distributed, thus for data zones not fully contained within the flood risk zones, there is no simple way of ascertaining how many residents within that data zone also reside within the part of the data zone intersecting the flood risk zone. In addition it should be repeated SIMD ranking associated with a given data zone does not mean that all people within the data zone experience the same levels of deprivation.

These features of available data sets pose a challenge for accurately estimating the size and characteristics of at-risk populations. Clearly there are both strengths and weaknesses with discounting data zones that only partially intersect flood zones and likewise with including such zones completely. A middle ground is to adopt some form of proportional allocation.

For the present study the proportional allocation method adopted is similar to that used in the analysis by Fairburn et al. (2005) for SNIFFER. Fig 3.1 illustrates this method, which entailed the following steps:

- ADDRESSPOINT coordinates for residential addresses were intersected with data zone boundaries, giving a total number of residential addresses per data zone, and crucially a more detailed proxy map of population distribution inside data zones.
- SIMD population estimates at data zone were then divided by these address totals, to generate an average number of persons per address.
- The number of addresses within each data zone also situated inside either or both types of SEPA flood zones (i.e. fluvial and/or coastal floods) was then calculated using GIS overlay functions. Applying the corresponding average number of persons to these counts of at risk addresses was used to generate estimates of the number of persons at risk within each data zone.
- Data zones were also divided into deciles (groups containing one tenth of all data zones) according to the SIMD rankings. Consistent with the Fairburn et al. (2005) approach these deciles were population-weighted, such that the populations associated with each decile were equalized as far as was practicable.
- As a result the estimated number of at-risk persons were further classified by deprivation decile.
- A similar process was used to estimate numbers of income-deprived persons at risk. In this case these estimates were derived based on the counts of persons receiving state income supports recorded in the SIMD data set.

Data zone level totals were disaggregated by averaging them across all residential addresses within each Zone. This method had the advantage of exploiting the spatial resolution that is available within ADDRESSPOINT data. It meant that each SIMD data zone could be given a population total and a total number of income deprived people. The number of address points within the combined fluvial/coastal flood envelope from the SEPA indicative map could then be derived by a clip analysis within GIS, and this then used to derive the population and the number of income deprived persons within that flood envelope. Using the SIMD ranking for each data zone, it was then possible to class each data zone into deprivation deciles. Fig 2.1 illustrates this spatial analytical procedure in more detail.

Although it was initially intended to base the GIS analysis on areas assessed as potentially vulnerable to flooding (PVA) according to SEPA's Preliminary Flood Risk Assessment and identification of potentially vulnerable areas ([SEPA, 2011](#)), this method was rejected on the grounds that the PVAs are very large zones created by aggregation of data on sub-catchment level, and as a result they are too coarse to reflect the true extent of flood risk that would be considered by home insurance industry, including members of the ABI. Current documentation on the development of these PVAs indicates that a different version of the PVA data set has been created, consisting of vulnerability measures for grid squares. Potentially this grid-based data set offers a more viable basis for analysis, although the coarseness of the grid resolution remains an issue. In any event, the gridded data set was not made available for the present analysis. The PVAs were, however, used in an exploratory sense to derive information on the total numbers at risk in the sample areas.

2.3 Focus groups

Two focus groups were held, the first in Stonehaven, Aberdeenshire, on 24th May 2012, and the second in Paisley, Renfrewshire, on 29th May 2012, both lasting approximately two hours. Participants were mainly self-selected from respondents to the survey and received a modest incentive of £25 compensation in return for participation. Those interested were asked to return contact details on their questionnaire return.

Some focus group participants were recruited following additional publicity by the Scottish Flood Forum and (in Paisley) the local authority and, by contacting Housing Associations. These methods intentionally increased recruitment bias towards people who had experienced a flood and/ or those in the local authority rented sector. Stonehaven experienced a major flood in 2009 affecting some 80-90 houses. In Paisley, the contributing areas (Renfrew, Johnstone and Paisley itself) had experienced variable amounts of flooding in recent years, generally associated with drainage overload/ pluvial flooding. A key goal was to elicit information from those who were on lower incomes and/ or public sector housing tenants (three out of six attendees at the Renfrewshire workshop were in this category). Thus, the focus groups contained a mixture of individuals: those who had experienced flooding, those who had not experienced flooding but had an interest in the topic, and those in the social rented sector.

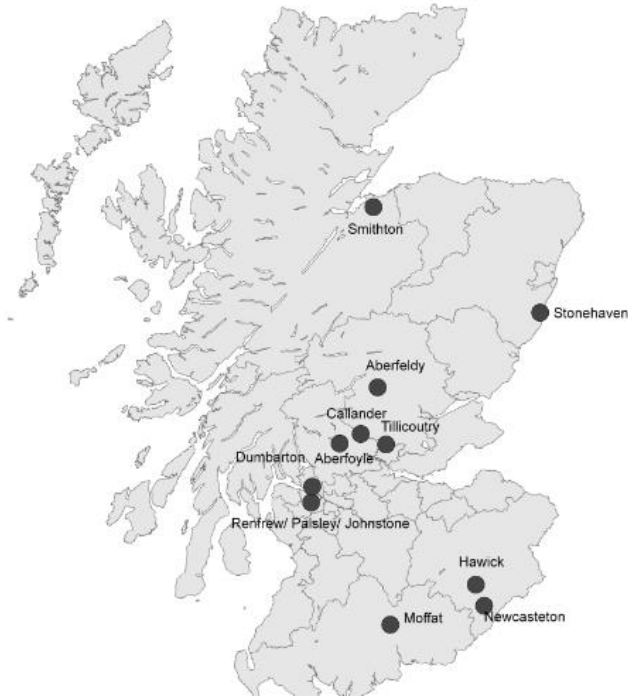


Figure 2.2. Location of questionnaire distribution sites and focus groups

Questions that were asked at the focus groups were designed to fulfil four broad objectives:

- To find out more about the practical effect on an individual, their family/ the running of their household, of changes to cost of insurance (mainly premiums, but also excesses)
- To look at the likely actions in response to any future change in more detail
- To investigate in more detail the trade-off between premium cost, excesses and individual actions. For example, how willing would people be to accept a higher excess if it meant a lower increase in premium? What about if people were to take action that could reduce the flood risk. Would they then be more inclined to accept a higher excess, knowing that the damage was less likely to happen due to their action? What had homeowners in flood risk areas done to protect their own properties, and had insurers taken note in any way?
- To get views on what participants considered a 'fair' model for future flood insurance.

2.4 Interviews with industry professionals and questionnaire to local authorities

Representative industry professionals were interviewed from AVIVA, the ABI, the British Insurance Brokers Association (BIBA) and SEPA. Individuals were chosen who were close to the policy making process. Three of the interviewees were members of the Defra Working Parties on *The Financial Risk from Flooding, Data Provision and transparency* and *Customer*



experience and perspectives towards property-level resistance and resilience which each reported in December 2011.

A short questionnaire was circulated to all members of the Society of Chief Officers of Transport in Scotland (SCOTS) to elicit the response of local authorities to potential changes in the provision of flood insurance post 2013.

The questions posed to the insurance professionals and the SCOTS representatives are itemised in Appendix 4.

3 The Statement of Principles and possible scenarios for flood insurance post-2013

3.1 Historical perspective

The UK is internationally unusual in having a flood insurance regime that is purely market-based with no direct financial intervention (for example, to subsidise premiums in high risk areas or underwrite losses) by either central or devolved administrations (O'Neill and O'Neill, 2012). The Statement of Principles is, in essence, an undertaking by the industry that insurance cover will be offered against flood damage at a risk level that is tolerable to this private market, with cross-subsidy between low and higher risk policy holders.

Against this backdrop, information sources on flood risk have improved markedly in the past few decades, and have become vital tools for both the public and private sector. The availability of increasingly detailed topographic data and advanced 2-dimensional hydraulic modelling have allowed flood extents to be modelled with greater precision, and communication via the internet has facilitated public knowledge of their own flood risk. In 2006, the Scottish Environment Protection Agency (SEPA) made the Indicative Fluvial and Coastal Flood Risk Map (Scotland) available, showing areas that would be inundated by a 1 in 200 year (0.5%) annual probability flood. Hydrological techniques have advanced to the level where pluvial risk (the risk of inundation through overloads to the drainage network through heavy rain and consequent surface water flooding) can also now be modelled. Although successive generations of hazard maps will increase the transparency of individuals' risk, it should be noted that the Indicative Fluvial and Coastal Flood Risk Map (Scotland) was designed for strategic assessment of risk and is ill-suited for the needs of the insurance industry. Forthcoming maps of pluvial flood risk will also include much uncertainty reflecting, in part, the challenges of fully incorporating the complexities of urban drainage.

The industry, through the ABI, selected a 1 in 75 year probability (1.3% annual risk of flooding) as a tolerable level of risk. Insurers developed their own risk maps at this level supplemented with other information sources, such as claims databases, to help assess whether to provide cover and at what level. In theory, based on the Statement of Principles, since 2008 cover could have been withdrawn from many areas that appeared to be at greater risk and where it was unlikely that flood risk reduction measures would be promoted. The evidence, at least from Scotland, seems to indicate that cover has continued in these areas, albeit at higher premiums and excess levels especially where recent flooding has occurred.

The Scottish Government has worked with other public sector bodies responsible for flood risk management in Scotland (SEPA, local authorities) to deliver on commitments made in the Statement of Principles. Grant aid for approved flood defences was continued, although the post-2007 administration abandoned ring-fenced flood defence allocations for local authorities, rolling it up into the General Capital Grant. A number of new defences have been funded, notably in Glasgow White Cart, Edinburgh Braid Burn and Water of Leith. A database was established on public sector-provided flood defences (the Scottish Flood Defence Asset Database) designed to help inform both the public and industry about their condition and the protection level offered by them.

A major legislative revision was then provided in the Flood Risk Management (Scotland) Act 2009. Following the timetable required by the EU Floods Directive, key milestones relevant to this work are:

- December 2011 Completion of the National Flood Risk Assessment by SEPA, showing areas in Scotland potentially vulnerable to flooding
- December 2013 Completion of national flood hazard and flood risk maps (SEPA)
- December 2015 National and local flood risk management plans (SEPA and lead local authorities).

The first of these deadlines has already been met with 243 Potentially Vulnerable Areas identified across the 14 Local Plan Districts ([SEPA, 2011](#)). Examination of these areas formed the initial stage of selection of sites for this survey.

The insurance sector accepts that the Flood Risk Management (Scotland) Act, 2009 has brought about a fundamental change in the way that flood risk management operates across Scotland. However, the shift from almost sole reliance on structural engineered defences to a whole series of non-structural measures including enhanced flood warning, promotion of community-based action, greater use of resilience measures and natural flood management pose major challenges to insurers. The insurers' high volume, highly automated, low-transaction cost systems are, however, well suited to assessing risk reduction based on engineered defences. This is very clear in the way that the 1 in 75 or 1 in 100 year standards of protection are explicitly specified in the 2008 Statement of Principles. Insurers are less accustomed to assessments of flood risk that include a suite of non-structural measures. For insurers the key consideration is simply determining either the current risk of flooding or the residual risk once defence measures have been put in place. Ideally they wish to determine these with high confidence and at minimal cost.

3.2 Looking forward

This section explores the possible provision of flood insurance post 2013 based on four interviews with representatives from one major insurance firm (AVIVA), the ABI and the British Insurance Brokers Association (BIBA). Initially a summary of responses to the questions itemised in Appendix 4 is provided together with contextual interpretation. This is followed by a reflective commentary on the views expressed by the insurance industry. This section concludes with the findings from the questionnaire survey to local authority SCOTS representatives and their response to potential changes in flood insurance post 2013.

As the Defra Working Party 1 report makes clear ([Defra, 2011](#)), the key issue following the expiry of the Statement of Principles in 2013 is how to ensure that flood insurance continues to be both available and affordable. Taking each in turn:

3.2.1 *Availability*

Interviews have made clear that home-owners with insurance will continue to have cover made available, but this is likely to be qualified in a number of ways. In high risk areas (greater than 1 in 75 year probability) premiums and/or excesses are likely to rise towards the true market price. Other issues related to availability include what happens when a high risk property changes ownership and how insurers view groups of properties which share a

common high risk location. In the former, insurers may not renew cover following a change of ownership or may seek to increase the premium and/or excess to towards free market levels. In the latter, ideally the insurer would seek a community-based solution (e.g. flood defences or a demountable barrier), failing which it is likely that individual home-owners would be strongly encouraged to install flood resistance and resilience measures.

On the question as to whether any property will become uninsurable after 2013, the straightforward answer is “No”. Thus the AVIVA representative commented:

We don't see us cancelling any existing insurance policies. Most insurers are taking that view. They will do what they can to support their existing customers. But in areas where it is very high risk and where people don't already have insurance, it will be difficult to get insurance and yes, it will become quite expensive for the relatively few.

So a more nuanced answer would be that for properties with a probability of being flooded say more often than once in 10 years, the premiums might become very high and potentially unaffordable. In that situation, it seems very likely that a niche market will develop post 2013. Specialist providers including both brokers and selected insurers will focus on providing cover for high risk properties, customising their products by requiring individual property surveys and, where necessary, offloading their risk via Lloyds and re-insurers. These new entrants may find this a profitable niche post 2013 as some insurers are only prepared to operate household insurance as a high volume, highly automated, low-transaction cost operation. Since high risk properties and those repeatedly flooded significantly add to administration costs, it is likely that that increasingly these will be off-loaded to specialist providers.

3.2.2 **Affordability**

Previous research ([ABI, 2011a](#)), suggests there has been substantial under-pricing of insurance due to cross-subsidisation of flood risk cover. On average, home insurance for those at significant risk of flood was said to be under-priced by 165% (£430). Significant variation was noted around this average with insurance ‘under-priced by 500% or more in some cases’ (ABI, 2011a p. 1). Research recently undertaken by the ABI ([2011b](#)) also suggests that 200,000 properties across the UK could struggle to access affordable cover after 2013. Separate figures for each of the devolved administrations are not readily available, but on a pro-rata basis (125,000 properties at risk of being flooded in Scotland compared with 5.2 million in England and Wales) there could be around 5,000 properties in Scotland that could struggle with affordability issues. The ABI regards affordability post 2013 as a more serious challenge than availability – although, of course, the two are linked should premiums in high risk areas rise towards a free market price.

Resolving the issue of affordability involves some element of subsidy for those facing much higher premiums as the market is freed up. The industry sees a role for Government in funding part of this subsidy since one of the primary duties of Government is to protect its citizens from natural perils. The substantial reduction in recent funding for flood defences in England and Wales by the UK Government is viewed by insurers as a partial withdrawal from this duty. However, the industry also sees the need for continued-cross subsidy based on a levy from all existing policy-holders to create a pool to cap premiums. The ABI, in particular, views this as a robust way of resolving affordability issues.

Claims would be paid from the pool because the policies going in there are paying less than they ought to be paying at risk-reflecting levels. Of course it would need to be topped up through a levy on all home insurance policies issued in the UK - probably less than £10 per policy.

This proposal of a levy is strongly supported by BIBA which, via the March and Guy Carpenter NOAH project, has calculated that a levy of £3.15 on all home insurance policies would enable the maximum premium for flood cover to be set at £300. Adjusting this levy up or down would, of course, trigger other values for the maximum premium. It is understood that there are on-going discussions between the industry and the UK Government on whether to charge a levy and, if so, the level of the maximum premium. Such a system would create a pool from which to reduce premiums for properties in high risk areas with probabilities of flooding between 1 in 75 years and 1 in 10 years. This would enhance affordability and provide some protection against fully commercial rates. One of the key issues is how the pool would be topped up were it to be exhausted by calls following a catastrophic event comparable to the 2007 floods. Other issues still to be addressed include (i) that any pooling scheme is not regressive (ie it does not hit lower income households disproportionately) and (ii) that it does not require high administration costs. Some degree of equity might be achieved if the levy were linked to the property's council tax band.

An alternative proposal which also addresses the issue of affordability is the use of the re-insurance market to lower the premiums that would otherwise have to be paid by policy-holders in high risk areas. BIBA is a strong advocate for this approach. On the basis of preliminary discussions with Munich-Re they estimate that potential losses even to 2007 levels could be re-insured.

3.2.3 **Further issues**

DATA PROVISION AND TRANSPARENCY

The ABI claims that SEPA has yet to be fully compliant with its obligations under the 2008 Statement of Principles. The outstanding issue relates to the release of data on existing flood defences in a format that would enable those data to be used for commercial purposes. In SEPA's view, however, the ABI is compounding two different issues. Access to the Scottish Flood Defence Asset Database (until recently held by the Scottish Government but now held by SEPA) is available, on request, to all enquirers. Access to SEPA's Indicative River and Coastal Flooding Scotland Map is still constrained by licencing issues with third parties. SEPA is seeking to resolve these issues in advance of the 2nd generation flood hazard maps scheduled for release in 2013. SEPA also stresses that the granularity of the current Indicative Maps makes them ill-suited to the needs of the insurance industry. However it is planned that the new products in 2013, with a much improved spatial resolution, will be available for commercial use.

Following the 2007 floods, the insurance sector is very concerned about the lack of information on the risk of surface water flooding. Although individual local authorities have maps of localised flood risk, these have yet to be combined into a publically available national map of surface water flood risk. It is however, appreciated that this will soon improve with the planned update of SEPA's Indicative River and Coastal Flood map and the development of several new mapping products scheduled for release in 2013.

Flood risk at the level of individual properties can be inferred using software developed by consultants on behalf of the major insurance companies. Typically these risk assessments are more detailed than those publically available from SEPA and the other UK environmental regulators. For reasons of commercial confidentiality, it is very unlikely that insurers will publish the basis on which flood risk is assessed and priced in this software. The best that can be anticipated is publication of the inputs that go into individual flood risk models.

Whilst data is exchanged between SEPA, Scottish Water and the local authorities, this does not extend to the insurance industry. A particular area of concern is the insurers' inability to access information from local authorities on local improvements which may substantially reduce the flood risk for individual properties.

RELIANCE ON ENGINEERED STRUCTURES

Although it is clear that insurers accept the merits of deploying community schemes involving demountable barriers and property-level resistance and resilience measures, is evident, engineered defences are still seen by many in the insurance industry as the gold standard. This is clearly reflected in the ABI comment:

It is a lot easier for insurers to measure the reduction of risk created by a big flood wall than it is to take into account all this intangible stuff that's not so easy to put a number on.

This is re-enforced by AVIVA's observation that for high risk households:

...there needs to be some kind of safety net for these people until flood defences can be arranged to an adequate standard.

which implies that non-structural measures may be regarded as a short-term palliative rather than a long term solution in themselves. Although the implementation of non-structural measures, including flood warning, should reduce claims, insurers find it difficult to price the contribution this might make.

Such understandable inertia in the mind set of those involved in flood risk management is not unique to insurers, but if not addressed, could pose a major barrier to the full implementation of sustainable flood risk management as embedded in the Flood Risk Management (Scotland) Act 2009 and the ensuing guidance issued by the Scottish Government and SEPA.

RESISTANCE AND RESILIENCE MEASURES

Two of the key measures lessening reliance on engineered defences are resistance (preventing water from entering a property) and resilience (minimising the impact should water find its way into the property). For some time BIBA has favoured adding resistance and resilience when a property is reinstated:

..... we've always advocated at the time of claim, when an insurer is doing a re-instatement, ... they should put in place resilience measures at that point – put in

sockets half way up the walls, use different kitchen units, appropriate floor coverings, non-porous plaster ... and mitigate the risk of future flood claims.

But until recently, many insurers have argued that factoring in the benefits of such property-level resistance and resilience measures in assessing premiums and/or excesses has been too complex and challenging. This is now changing and insurers are beginning to explore ways to make it easier for property-level actions to be incorporated into the underwriting process.

Crucial to such a change is the development of consistent, low cost procedures yielding robust and accurate estimates of the residual risk once such measures have been put in place. This could involve the use of surveyors and contractors accredited by the insurance sector. In the commercial sector it would be normal for a specialist survey to be undertaken to ensure that appropriate resistance and resilience measures have been identified. Translating this to the domestic sector and the ideal situation, AVIVA commented:

In the perfect situation we would ask the policy holder to take specialist advice to see what can be done and to provide evidence to us of what had been done and what the residual risk was. It doesn't much matter what actual measures are taken. It's more once they are taken what is the risk of future flooding? Will it keep water out up to a certain level that's what we ideally like.

The cost of such customised surveys may be prohibitive for many residential properties although, as argued below, it may be possible to reduce the unit costs by commissioning a survey involving many adjacent high risk properties.

More contentious is how large a reduction in premium and/or excess should accompany the adoption of resistance and resilience measures. On this insurers are adamant that because of current under-pricing under the Statement of Principles, premiums and excesses might continue to rise even after such measures have been adopted. However, depending on individual circumstances, premiums and/or excesses might go up by less than otherwise would be the case or even go down depending on the mismatch between the previous premium and fully commercial rates.

One situation where insurers might be more positive about the merits of resistance and resilience measures is where a group of high risk properties fail to meet the cost-benefit ratios necessary for installing flood defences. In this situation either community-based demountable defences or property-level measures become favoured measures. If a single surveyor can assess all the properties at risk and produce either a community scheme with demountable defences (operated by a community group or local authority) or produce customised solutions for each property at risk, both premiums and/or excesses should show significant improvements. In terms of excesses, a case can be made that measures which require specific actions by the policy-holder following a flood warning (e.g. fitting door guards) should include an appropriate excess to encourage the policy-holder to take the necessary action in good time.

3.2.4 **Commentary on views expressed by the insurance industry**

The interviews have made clear that the insurance industry aims for a much freer market post-2013, with the current level of cross-subsidy between policy-holders significantly reduced. In this freer market, availability would be strongly conditioned by three factors: the probability of being flooded, the presence or likelihood of engineering-based measures being brought forward, and whether a substantial group of properties are at risk.

- Properties within a one in 1 in 75 years flood zone will see their premiums and/or excesses rise but availability should not prove a problem. For properties likely to be flooded more often than once in 10 years, insurance will continue to be available but from specialist providers within a niche market. In this situation, affordability may well decline to a level that makes insurance effectively unavailable unless an agreement on a levy on all policies is introduced to provide a ceiling on maximum premiums. Despite the provisions of the Flood Risk Management (Scotland) Act 2009 and subsequent guidance, the industry still sees engineered defences as the optimal solution and alternatives as short-term palliatives. Insurers are struggling to factor into their risk assessment the efficacy of non-engineering based measures such as enhanced flood warning, natural flood management, heightened awareness and resistance/resilience.
- Where a group of properties are at risk and the cost-benefit ratio does not warrant the construction of walls and embankments, community-based demountable defences can be an attractive alternative for the insurance sector. Whilst Perth has demonstrated the value of such defences when activated by a local authority, obtaining comparable levels of co-ordination by voluntary effort poses a greater challenge.

In terms of affordability the interviews collectively point to a preferred solution from the industry that includes government-funded support for the most vulnerable, a pool funded by a levy on all household insurance policies to subsidise premiums in high risk households, plus re-insurance to protect the industry from very severe losses should there be a catastrophic flood comparable to 2007.

- The insurers' claim that current levels of public expenditure on flood defences fail to meet the government's duty to protect its citizens and this should trigger a government insurance subsidy post 2013. In our view, given the state of public finances, this outcome is highly unlikely.
- Accordingly, any subsidy will have to be generated by a levy on all household insurance policies. A plausible levy of £3.15 would cap the cost of flood insurance at £300: with other levels of levy triggering a range of maximum premiums. Concerns that such a levy should not be regressive could be met by linking the levy to council tax bands.
- BIBA, alone of those interviewed, favoured the use of re-insurance to contain excessive inflation of premiums and/or excesses. The additional cost this would impose on ABI members makes this a much less attractive proposition for the major insurers. However, the use of re-insurance would enable insurers to meet claims in excess of the amount held in the pool in any given year without drawing on their reserves.

In terms of data availability and transparency, there is a marked reluctance on the part of insurers to make what they see as commercially-sensitive information readily available to either the general public or SEPA. Whilst SEPA's revision of its Indicative River and Coastal Flood maps in 2012/13 will undoubtedly provide an enhanced assessment of the flood hazard that will make cross subsidy highly transparent to the public, licensing issues will need to be addressed to ensure that this information is widely available. The Defra Working Party report ([Defra, 2011](#)) indicated good levels of transparency and exchange of data between the Environment Agency and major insurers in England and Wales. It is to be hoped that similar levels of data exchange will soon prove possible in Scotland and that this will include data on surface water flooding held by both SEPA and local authorities.

In terms of promoting resistance and resilience in individual properties there is movement by the insurance industry in accepting property-level actions as a way of reducing premiums and/or excesses. However, given the insurers' warning that such measures may only limit increases in premiums and/or excesses rather than stop them, householders may find that they do not lower overall costs. Implementing such changes in premiums and/or excesses will also depend on the availability of surveyors and contractors (accredited by the insurers) who can provide robust estimates of residual risk once the property-level measures have been implemented. As already noted, many insurers still see such measures as short-term palliatives to be superseded by engineered defences in due course.

3.2.5 *Local Authority perspectives*

Only seven local authority representatives responded to the questionnaire (Appendix 4), so this summary of the responses to each of the four questions should be viewed as merely illustrative and not an authoritative account of likely local authority responses post 2013.

- Four out of seven local authorities were aware that the Statement of Principles will expire in July 2013. But in two cases this was qualified with "not sure if all parts of the Council are aware" and "but the potential impacts have not been given significant consideration". This suggests a key information gap that needs to be addressed well before July 2013.
- One local authority was unaware of the likely impacts of the potential withdrawal of insurance cover after 2013. All six other local authorities viewed this scenario with concern seeing it as variously contributing to "a loss of community resilience", "constraining effective future surface water management" and, most seriously, potentially placing demands on them "to provide a level of flood protection that will allow property owners to obtain flood insurance". One authority is already fielding enquiries from concerned householders and is apprehensive should there fail to be a new agreement between Government and the ABI. Another authority feared there might even be "increased pressure on Council to provide hard engineered schemes to reduce flood risk, possibly even where the economics don't stack up". This final concern resonates with the insurance industry's view, noted above, that engineered defences remain the gold standard and is at variance the principles of sustainable flood risk management embedded in recent legislation and associated guidance.

- Four of the seven local authorities had specific plans to address potential changes in the availability or affordability of flood insurance in their area post 2013. In two cases this only amounted to working via “flood risk management strategies currently being implemented”. Two other authorities were more pro-active with one embedding this in their “pending surface water management plan measures”. Another authority viewed the development of SEPA’s 2nd generation flood hazard maps as an opportunity to revise previous incorrectly identified risk as its Local Flood Risk Management Plan emerges. Going even further it also speculated that, “improved modelling will not only identify potential flood risk mitigation solutions e.g. defences, warnings, etc, but also better detail who is at risk. It may be appropriate, with certain disclaimers, for insurance companies to have the information from better modelling”. This possible sharing of information between the public and private sector could help ease concerns over transparency and data availability.
- Of the seven local authorities, only one assisted with the purchase and/or installation of flood resilience products by providing up to 50% funding for properties with a high risk of flooding. One authority, which currently relies on providing sandbags in an emergency, having “looked at available products on the current market”, has decided not to take “forward the opportunity to provide these to private homes”. Another authority is awaiting the emergence of “a common national approach and funding/guidance provided by Central Government to ensure standards are the same”. These responses suggest that local authority promotion of flood resistance and resilience products in Scotland is still in its infancy.

4 Survey and Focus Group Results

4.1 Questionnaire: sample characteristics

Sample characteristics of the were compared to Scottish National Averages from the Office for National Statistics (ONS) and General Register Office for Scotland (GROS). Key indicators that were analysed were: average income, income distribution, age distribution, housing and employment status. Data from the Scottish Household Survey (SHS) was used to assess representativeness of the insurance data in terms of numbers having insurance.

The key points on the comparison between the sample and key national indicators are as follows (fuller detail with charts is set out in Appendix 1):

INCOME

Annual pre-tax incomes of returnees showed a slight but definite bias toward lower-than-median incomes.

AGE

The age profile of the sample showed a slight bias towards higher age brackets (above age group 41-50 - Figure A1.2), when compared with the national distribution.

EMPLOYMENT

The questionnaire sample comprised 3.8% of responses who declared themselves unemployed. This is some way below the claimant count measure of unemployment, at 8.5% of the population. There is some potential for an overestimation of this measure in the survey - since the question simply allowed respondents to tick a box marked 'unemployed', without enquiring as to whether they were either actively seeking work or claiming benefit.

In terms of employment categories there was a fairly close approximation to the national profile with a broad spread across skilled, semi-skilled and elementary occupations. 'Professional' occupations were the one category over-represented in the sample (fig A1.3).

HOUSING

All major types of housing (flat, semi-detached, detached) were represented with numbers broadly similar to that at a national level. In terms of tenure, questionnaire responses relative to the Scottish average were slightly biased towards owner-occupiers as compared to those renting or participating in shared ownership schemes.

4.2 Insurance coverage

9% of the overall sample had no insurance for either building or contents. Data for comparison are available for Scotland, in Werritty et al. (2007), and the Scottish Household Survey (SHS). Werritty et al. (2007) found an identical number without home contents insurance, while the (SHS) figures, averaged over 3 years (Poverty Site, 2012), indicate lower insurance coverage in Scotland as a whole, with one in six households, around 16-17%, lacking insurance for either building or contents. The discrepancy is likely to be due to the larger numbers of urban households surveyed in the four largest cities by the SHS, whereas both the survey in this project, and that in Werritty et al. (2007), were oriented primarily towards areas that had been flooded. By surveying Renfrewshire, this survey incorporated into the sample some households within Strathclyde conurbation, but did not attempt to capture a proportionate sample in urban areas.

For those renting their property, a much higher proportion, 33%, had no contents insurance. Again, this is lower than the national average of 46-48% across all rented sectors (Poverty Site, 2012), due to similar reasons to those noted above. In itself this bias is not regarded as problematic, for two reasons:

1. The two surveys using similar site selection methods (the current survey and Werritty et al., 2007) have derived samples in flood risk areas and areas historically flooded that tend to indicate a higher level of insurance coverage in such areas in Scotland compared with the national average.
2. Both surveys were focussed on the effects on people in such areas, it is important to capture this effect for these areas, looking at the possible national impact of increased insurance costs.

Nevertheless, it should be borne in mind that Houston et al.(2011) noted the possibility of areas being affected by pluvial flooding suffering from blight due to a combination of population growth and climate change (projections of increased rainfall). These are more likely to occur in the same large urban areas where under-insurance is the greatest problem.

4.3 Current insurance costs

The average annual premium payment currently was £398 across all areas for those with combined building and contents insurance, £243 for those with separate building insurance alone and £157 for those with contents alone. Of those who had a made a claim for flood damage in the past 3 years, which constituted 8% of the data set, costs were as shown in Figure 4.2.

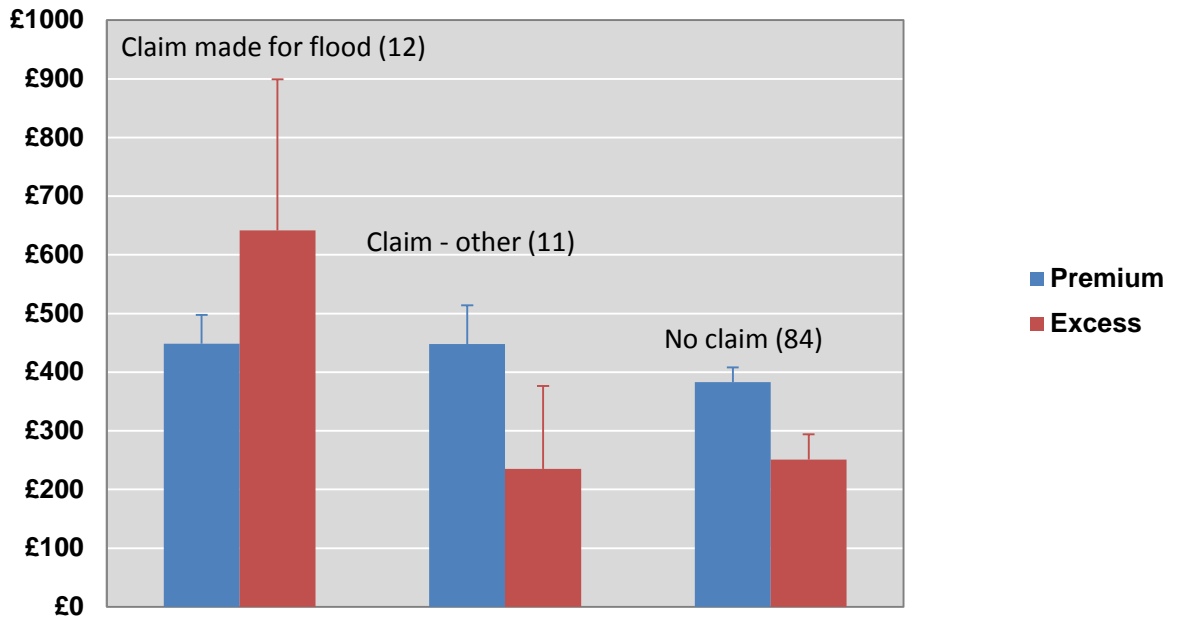


Figure 4.2 Reported insurance costs related to claims in past 3 years from the sample with combined building and contents insurance. Sample size shown in brackets, error bars show standard error of the mean.

4.4 Affordability of higher insurance costs

In all cases, respondents rated the degree of difficulty in meeting higher costs on a scale of 1-5 against premium increases of £25, £50, £100, £200 and £500 per annum, and increases in excess of £200, £500, £1000, £2000, £5000 and £10000 based on a scenario in which they were faced with a hypothetical ‘post-flood’ claim of £30 000. Results of this question were then cross-tabulated by income, age, employment category and housing status groups. Summary results are reported in this section, while detailed cross-tabulation charts are reproduced in Appendix 2.

The questionnaire showed the expected clear rising trend in difficulty of payment with rising premiums and excess costs (fig 4.3-4.4).

In the focus groups, most severe potential effects were generally reported by those who have just contents insurance, corroborating the findings of the questionnaire (see Appendix 3, Figure A3.1). Some implied that contents insurance, while it provided peace of mind, was something that they would forgo if it became too expensive

*I live in a housing association flat – the prospects, as a single person, for moving into another HA flat or a council flat are few and far between. The choice for me if there was a significant increase (in my premium) would be whether to maintain it or not...I could just about manage without insurance but it is a safeguard while it is at the level it is.
(Stonehaven)*

Say my insurance (for just contents) was to double in cost—someone in my position (retired) couldn't deal with that at all. (Renfrew).

I would say a fair premium for contents) is somewhere around £75 (for a single person household), if you went above 3 figures I wouldn't deem it to be fair as much of what I am insuring is of nominal value anyway, some of it just of personal value, and one or two goods that would be significant costs if they were damaged – it is that sort of things you are insuring for, the tv, fridge, etc. (Stonehaven)

When prompted, other participants reported possibly needing to cut back on more discretionary spending, such as holidays, if their insurance costs went up, but others were dissatisfied with this and would try to reduce insurance costs, even by opting out.

If the excess became too much, you would probably just opt out of the whole system and leave it to chance. Because if you had the choice between paying the insurance and having different things to do ... I don't want to play this game! I need my holidays – I have places to go and people to see! (participant with contents insurance only – Renfrew).

Concerns were also expressed by owner-occupiers over the impact on the mortgageability of their homes:

There was no mention of an excess for flood on my previous policy (before a flood event) after the flood it went up to £2500 for storm and flood claims .If it went up any further and I got flooded again, I might have problems continuing the insurance (Renfrew).

This participant had a property under a mortgage, and acknowledged that this difficulty would affect the ability of the mortgage company to continue the loan.

The issue about lack of flexibility to move was also stated as an impact by those who owned their properties.

The cost is one thing but a greater impact on me is that I couldn't be mobile – I couldn't move from the property because of the flood risk and the attitude of the insurers.(Renfrew)

If the excess got too high you might just decide that you can take it, take the calculated risk in order to keep other costs down. So you wouldn't opt out but you could say – 'well, there's not a cat's chance of me actually being flooded' – so you would take the risk. But you wouldn't be happy about it. (Interviewer 'What would make you unhappy in those circumstances?'). Just living with the risk –there are wider impacts, not just the cost – it is not being able to sell the house etc... that has a wider impact. (Renfrew).

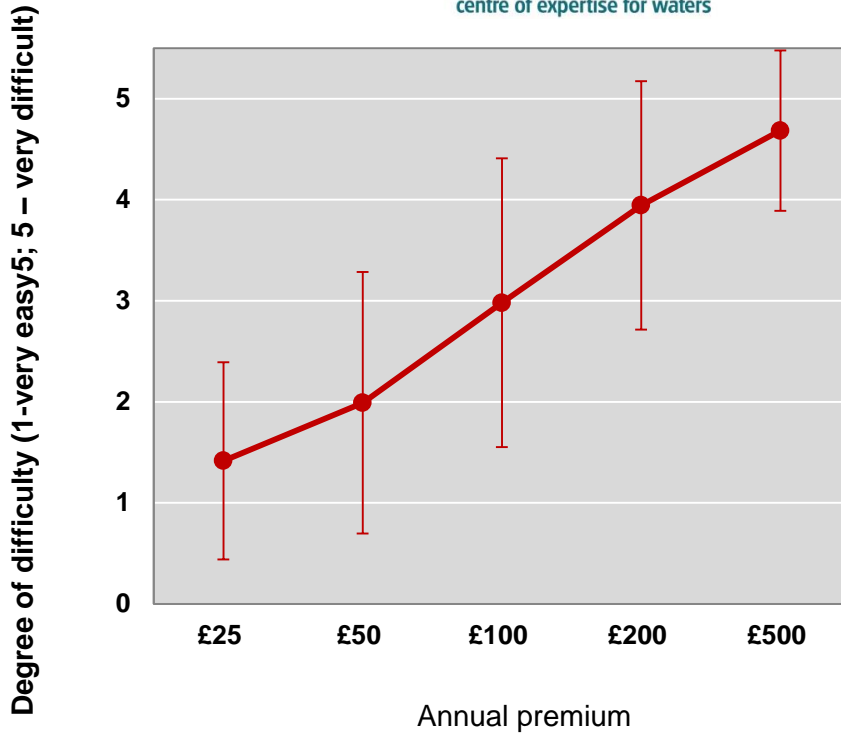


Figure 4.3 Mean degree of difficulty of meeting increases in annual insurance premium - all respondents with combined building and contents insurance (n = 94). Error bars show standard deviation

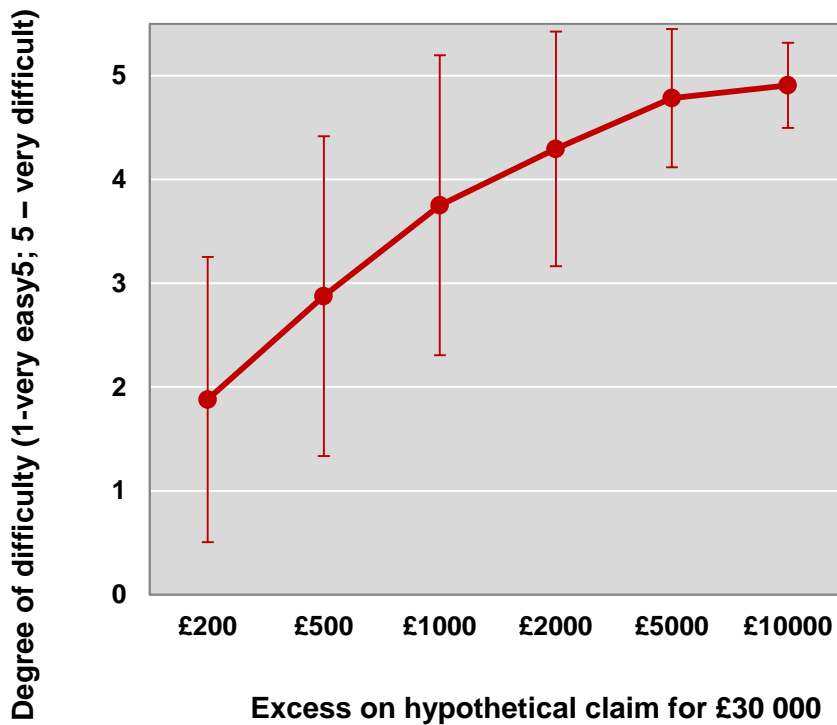


Figure 4.4 Mean degree of difficulty of meeting an excess payment of the amount shown on the x axis on a claim for £30000 - all respondents with combined building and contents insurance (n = 94). Error bars show standard deviation.

4.4.1 **Affordability related to income**

A clear trend was noted toward decreasing degree of difficulty and increasing willingness to pay a higher insurance premium at higher income brackets. Figure A2.3 (Appendix 2) shows that the difficulty increases markedly at the very lowest income bracket. At these low income levels, at up to £5500 per annum, a high degree of difficulty arises from only a small increase in premium, only £50-100, with even a £25 increase gaining a difficulty rating of 4 (difficult). The sample size at this income level was, however, low for building and contents combined policies, reflecting the fact that this income group was more likely to be renting, and, therefore, would not need building insurance. For contents insurance, the pattern, seen in Figure 4.8 c was repeated in a larger sample size, with this group noting a difficulty level of 5 (very difficult) for a £100 increase in annual contents premium.

Considering contents insurance alone, it is possible to see a separation in terms of difficulty for low income bands up to £16,000 per annum, from those above this band, at around £50-£100 a month level. This still represents a low income group but with a higher sample, 19 respondents contributing.

These findings were corroborated by several comments made in the focus groups that suggested low take-up by social housing tenants on low incomes

I don't think many people there have any insurance there at the moment. Unless.. that's the first time I'd heard of the council insurance, I didn't know about that...I'm really quite surprised about it... by the same token, we do have a lot of unemployment here and it's very hard (for these people). The council scheme could help this, but I didn't know about it – it's something I'd think about myself. People may not be taking it up because if something breaks, or the building gets damaged, the council will fix it and people feel that's enough.(Renfrew).

This indicated a tendency among those in the social rented sector to forgo contents insurance even if the cost was subsidised by a local authority. However, this aspect may also be down to lack of knowledge of the subsidy scheme. If this can be remedied there is potential for expansion of 'pay with rent' schemes, such as the one in which the Renfrewshire council tenant was participating. One participant at the Renfrew workshop who was a council tenant participated in this scheme, paying £5 a month for contents insurance worth £15000. Renfrewshire council reported, following separate enquiries, that only 11% of council tenants participated in their scheme.

For excesses, the trend was generally similar, although difficulty shows a greater sensitivity across the range, i.e., a more marked increase in reported difficulty moving from low to high income bands (Figure A2.3). The lowest income group in this case reported that it would be 'very difficult' to meet an excess demand of £500 for a claim of £30000. Also, all income groups reported that meeting an excess of £10000 on such a claim would be 'very difficult' or close to this level of difficulty. For contents insurance, reflecting the fact that the same excess level was being assessed by respondents for a lower degree of coverage, expressed difficulties reached higher levels at lower excess payments for a given income bracket. Considering again contents insurance, the income bands up to £16000 again reported high difficulties at the lower end of the scale

4.4.2 Affordability related to home ownership/ tenure status

Homeowners were less likely to report difficulty in the event of future increases in premium costs than those renting (fig 4.5). The picture was different when comparing homeowners with building and contents insurance combined to homeowners with just contents insurance. For those with just contents insurance, greater difficulty was expressed from a given premium increase, perhaps in part because these types of homeowner were more likely to fall into an older age bracket, and more likely to have paid off any mortgage on the property.

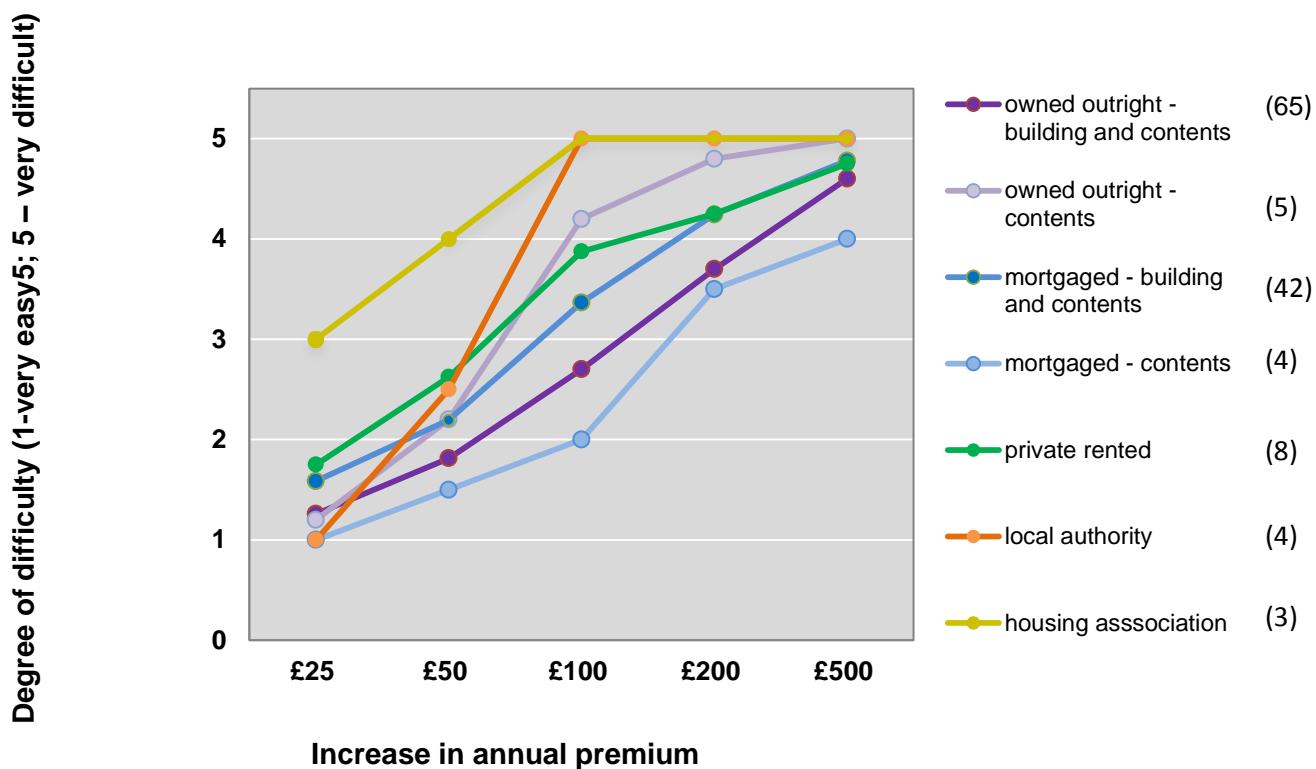


Figure 4.5 Expressed degree of difficulty of meeting increases in annual insurance premium, cross tabulated by household property tenure status. Sample size in brackets.

In terms of maximum willingness to pay for premium costs, homeowners again declared higher amounts than non-homeowners (fig 4.6), from £400 to £600 in the case of those owning their own property, to a maximum of just over £200 for those renting. However, when the figures for those renting were compared to homeowners who just possessed contents insurance, the differences became much less dramatic, with only a slightly higher WTP among homeowners owning their property outright, and a lower WTP among homeowners with a mortgage compared to both the local authority and private rented sectors.

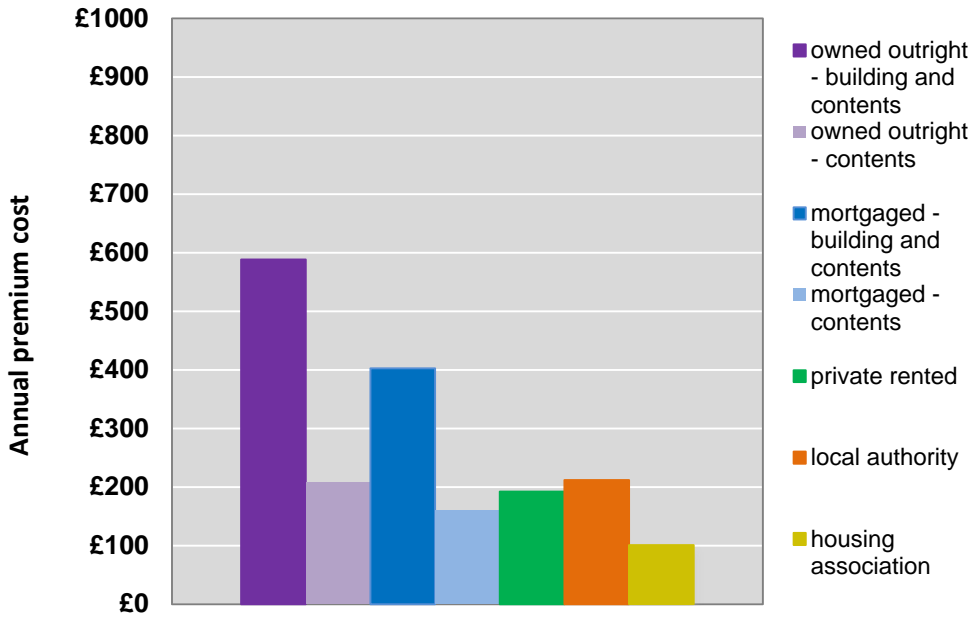


Figure 4.6 Expressed average maximum premium that respondents were willing to pay for their current level of insurance cover, by household property tenure status. Sample sizes in fig 4.5.

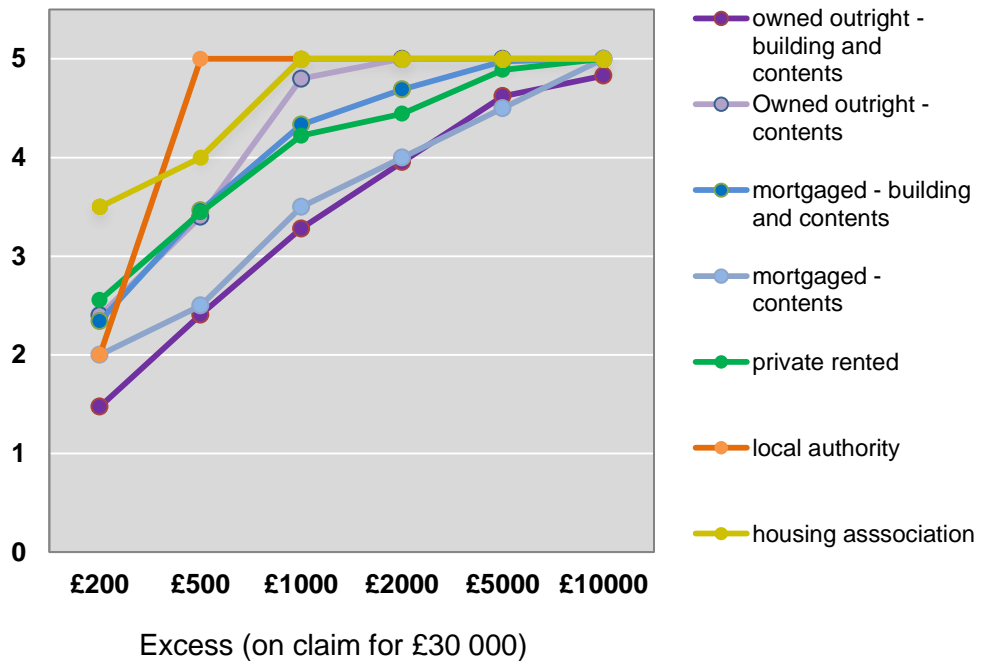


Figure 4.7 Expressed degree of difficulty in meeting excess payment on a hypothetical claim of £30 000, by household property tenure status. Sample sizes in fig 4.5.

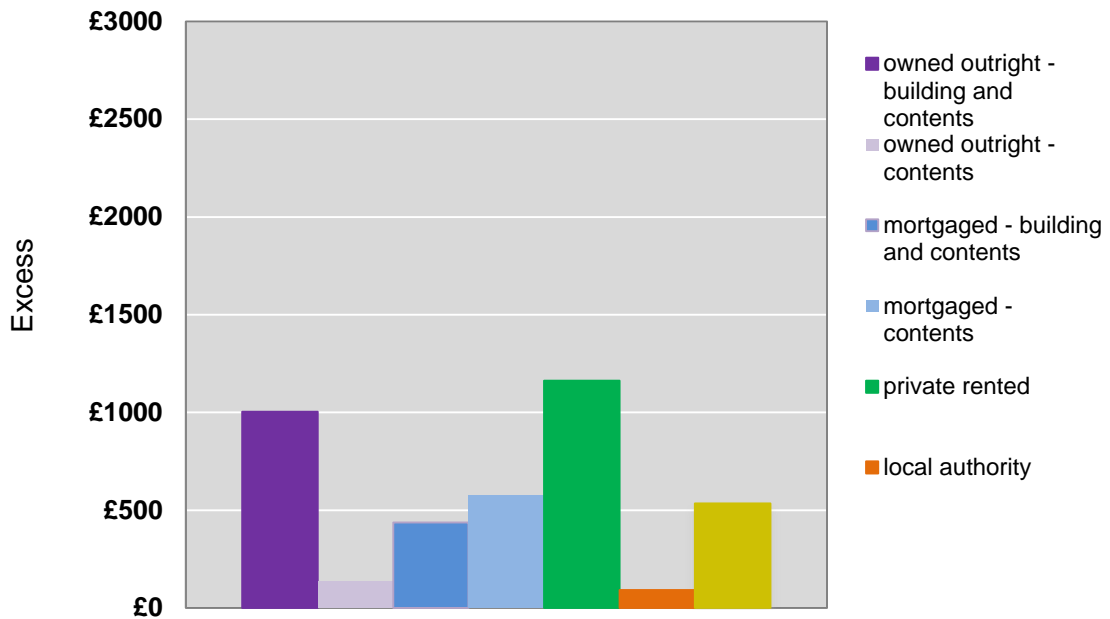


Figure 4.8 Maximum excess that respondents were willing to pay on a hypothetical claim of £30 000, by property tenure status. Sample sizes in fig 4.5.

For excesses (Figure 4.7- 4.8) the trend with increasing cost was again similar to that for premiums, although in this case, those with a mortgage expressed similar potential difficulty to those renting privately. In terms of willingness to pay, those owning their property outright showed lower willingness to pay for contents insurance compared with those with a mortgage.

4.4.3 *Affordability related to age*

Age showed an identifiable, although comparatively small, linear relationship to ability to pay for insurance premiums, up to the highest age bracket of over 80 years (Appendix 2, fig A2.5), for those with combined building and contents policies. For those possessing only contents insurance, the picture was different, with both low and high age brackets expressing high difficulty levels, while the 41-50 and 51-60 age brackets expressed lower difficulty for premium increases of £100-500 per annum.

For the oldest age brackets of 71-80 and 80+ years, homeowners, with combined building and contents policies, showed willingness to pay for higher premiums than those in the same age brackets who just had contents insurance (Appendix 2, fig A2.6). In part, this reflects the lower insured value inherent to having just contents insurance, but it also may reflect a demographic separation: a higher wealth group of homeowners having a larger buffer against higher insurance costs, but with those not owning property very exposed to insurance increases and therefore having a lower willingness to pay. Further work would be necessary to elucidate this aspect more fully.

The average maximum premium that respondents were willing to pay for both premium and excess is shown in Table 4.1. These may be compared with the figures that respondents are currently paying, in Figure 4.2.

Table 4.1 Mean maximum willingness to pay for premium and excess. Standard error of the mean in brackets, 137 respondents insured

	Premium	Excess	n
Building and contents	£ 499.43 (£33.13)	£ 754.08 (£88.73)	94
Building only	£ 312.22 (£46.39)	£ 431.82 (£92.51)	11
Contents only	£ 182.14 (£17.79)	£ 598.86 * (£232.62)	22

*Sample mean was skewed by an outlier, a single return indicating a maximum willingness to pay of £5000. If this result is excluded, the mean WTP for excess in this group is £389.29 with a standard error of £105.88.

4.5 Possible actions by households if insurance unaffordable

Respondents were, as a final question, asked two questions on willingness to pay for insurance cost increases: *‘if the premium (excess) that you were required to pay increased beyond the level that you were able or willing to pay, what would you do?’*. This generated a series of responses shown in fig 4.9.

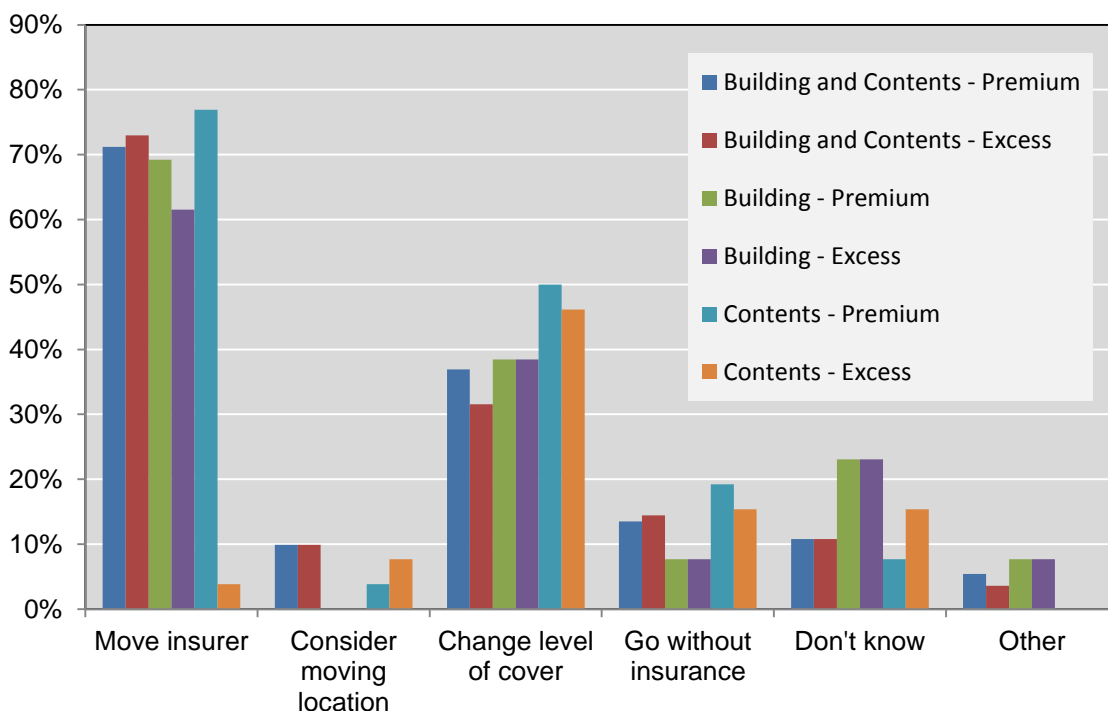


Figure 4.9 Declared actions in the event that insurance became unaffordable.

At the focus groups, these aspects were investigated in more detail, as well as the possibility of installing flood protection products. One participant expressed surprise at the reluctance of insurers to lower premiums in general even though it was evident to him that property protection could reduce flood damage.

If the flood barriers hadn't been there, it would have been far worse...as it was the water came up through the floor a little, but just up to the top of the skirting boards. – damaged carpets and white goods – but the water had been two feet deep outside...just below the top of the flood barrier. (Stonehaven)

Separately from the focus groups, a participant in Stonehaven, who had had property level protection installed, reported on his renewal experience after the flood:

In the end I took [a policy] with flood excluded. £600 premium (my last flood cost about £16000), but I could have done it for less and certainly a lot faster with less wear and tear on my coronary arteries. It would break my heart to have an insurance company arguing about and delaying everything and still charging me 5000 quid!

This provides a real-life story of the implications of the issues set out in s. 4.2.3 above. The Morpeth Flood Action group (2011) have also reported that there is little evidence that insurance companies were recognising the efforts of households who had installed flood resistant products, through reduction in premiums or excesses.

4.6 Views on a model for future insurance

In both focus groups, a clear majority of participants supported the idea that a subsidy be provided for those in flood risk areas if this made it possible for them to afford insurance. There was a desire expressed to maintain Government control of payouts from this fund, even if it was not publicly subsidised but funded by a levy on policyholders.

I would say that it would be best not so much to subsidise the insurance companies as subsidise those who might be affected. Some things that might work are to have some sort of emergency pot – kind of take that money out of the whole insurance thing - because at the moment nobody has any control of it. – take it right out the whole insurance industry altogether – why not take it out and stop them making the money out of it. (Renfrew).

I think it should be the insurance companies who have to contribute it out of their general profits, but it could be linked to a small contribution from everyone e.g. like council tax, where you have your water bill itemised, and then distributed to the community when there was a flood. But I think this should be done at Scottish Government level rather than local authority level.

However, there was also a desire expressed that any such new model be transparent:

I'd like to see insurers be more open about what they know about the flood risk in reality. I know that in theory I live in a 'flood plain' but in practice that doesn't really mean anything.

There should be a code of practice (for the private sector) that would actually say what a 1 in 200 or 1 in 75 risk actually means (Stonehaven).

As to the source of any such levy, participants were happy with the notion that it should come from all policyholders, not just those in the higher risk zones.

I've paid my taxes, etc., for my whole life. That is paying for a whole heap of things that I don't necessarily benefit from, e.g. other peoples children's education etc – (I don't have children) but I pay that willingly because that is a society, a community, and if we were to unpick anything to the nth degree as in 'am I paying for it' we would not get anywhere. I suppose it is about solidarity. In trying to make a more equitable playing field for people, I think I can afford to pay a bit more for insurance – I wouldn't be happy with a £10000 excess, but there are so many things we already pay for that we don't use. There's a bigger picture here, that's what we've got to remember (Renfrew)

5 GIS-derived estimates of population at-risk nationally and their levels of overall deprivation and income deprivation

GIS was used as described earlier to estimate the population residing within the flood zones defined by the SEPA Indicative flood risk map. Results of the GIS analysis showed that around 158,200 or 6.3% of the total 2.5 million eligible residential addresses nationally are located in the combined flood envelope (fluvial and coastal flood risk zones combined).

The proportion of the Scottish population estimated to live in the flood envelope was slightly lower – 5.7% of 5.14 million persons overall, the latter figure being the most recent estimate of annual population (for 2007) available with the SIMD data set. These percentages reflect the uneven and indeed highly concentrated spatial distribution of the Scottish population. In absolute terms the number of people estimated as living in flood risk zones is around 293,000. Of course, not all of those included in this estimated total are either homeowners or are primarily responsible for paying rents, as the total also includes others, e.g. dependents. However some indication of the subset of residents who are homeowners or primary tenants who typically also would have responsibilities for home insurance can be gauged from the total number of eligible residential addresses located within the flood zones - a figure which stands at approximately 158,000.

The use of population-weighted SIMD deciles means that approximately 10% of the overall population is associated with each individual decile, resulting in a 'flat' profile across all deciles. Compared to this the corresponding profile for the at-risk population exhibits substantial departures (Figure 5.1). Persons in data zones in the first and second deciles (i.e. the 20% data zones classed as most deprived overall) make up relatively small share of all residents in flood risk areas, as do persons in data zones in the eighth, ninth, and tenth deciles (i.e. the 30% of data zones classed as least deprived overall). Conversely, most persons in at risk areas appear to be in data zones within the fourth to seventh SIMD deciles, in other words in data zones in which overall deprivation is neither extremely high

nor low. The share of at risk persons in data zones in the third decile is similar to the national share.

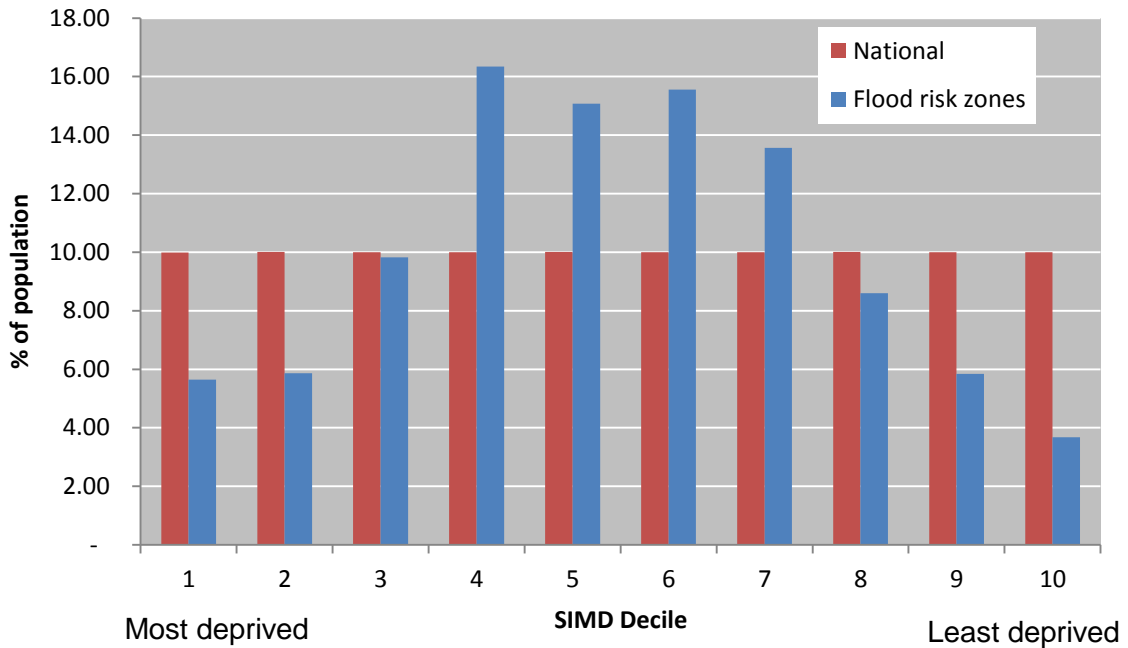


Figure 5.1 Proportion of national and at-risk populations by SIMD decile (population weighted)

These estimates give grounds both for optimism and some concern. On the one hand, they show quite clearly that there appears to be a conspicuous absence of a strong gradient in the deprivation-exposure relationship, in other words that persons in most deprived areas do not live in disproportionately large numbers in flood risk areas. On the other hand, other evidence based on the Scottish Household Survey indicates that persons in most deprived areas are disproportionately unlikely to have home insurance. For this very reason persons in such areas remain of concern to the present analysis. However they are perhaps less concerning than the disproportionately high numbers of persons living in data zones in ‘intermediate’ deciles. The latter persons are more likely to have insurance to start with than persons in more deprived deciles. Correspondingly any increases in home insurance costs in future are also more likely to impact persons living in data zones in these deciles, in terms of their ability either to maintain insurance cover at a comparable level as at present, or indeed to retain cover at all.

The SIMD data on income deprivation were also analysed. Two key variables exist in this case: a ranking of all data zones from most income deprived to least income deprived (much like the overall SIMD deprivation ranking of data zones), and counts of income deprived persons within each data zone, updated to mid-2010.

The former of these variables was used in an initial step to subset top 15% most income deprived data zones (the 15% cut-off is widely used to indicate data zones in which levels of deprivation are of greatest concern). This subset of data zones was then mapped against SEPA’s indicative flood risk zones (Figure 5.2). It may be noted from this map that income deprivation appears concentrated geographically, notably in data zones in the traditional industrial areas in and around Glasgow, along the Forth and in south Fife, but also with

concentrated pockets elsewhere in the Central Belt. The locations of these most income deprived data zones mean that some of them are also within river flood risk zones, and/or coastal flood risk zones, although the map also indicates that by no means all such data zones are located in flood risk zones.

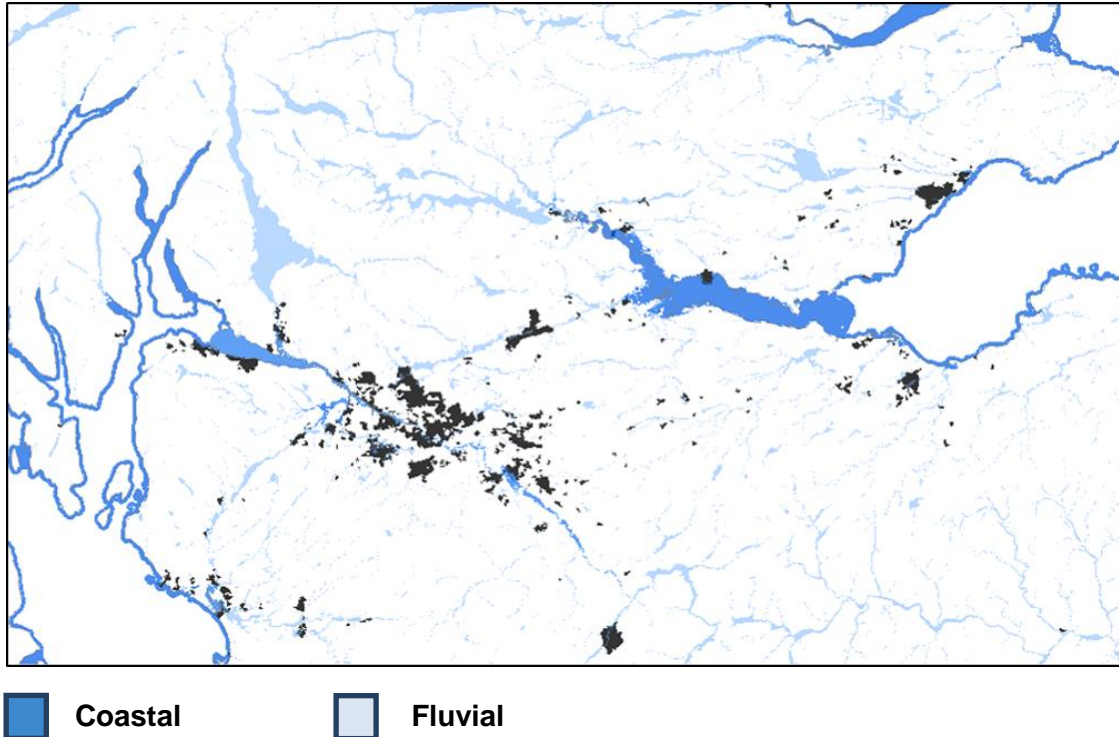


Figure 5.2 Screenshot of partial GIS analysis of the 15% most income deprived data zones based on the SIMD income domain within mapped flood risk zones (from SEPA Indicative Fluvial and Coastal Flood Risk Map (Scotland)) in Scotland's central belt.

Using the second variable – numbers of income deprived persons aggregated at data zone level – estimates were made of the numbers of income deprived people living in at-risk areas. The estimation method was the same as that used to estimate the overall numbers of persons at risk. In this case, the estimates suggest that the total number of income deprived people living inside flood risk zones is over 41,000. In percentage terms this works out at around 14% of all persons estimated as living in at-risk areas, a proportion which is close to the overall national percentage of residents classed as income deprived (15.1%) according to the SIMD data set. Again the estimated proportions of income deprived persons in each population-weighted SIMD decile was calculated, and the resultant profile compared to the national profile (Figure 5.3).

As the graph shows, neither profile is flat in this case. Instead both profiles show clear signs of a downwards gradient. The national profile shows that the largest share – over a quarter – of income deprived persons are in data zones grouped in the first decile (i.e. 10% overall most deprived data zones). Conversely less than share of income deprived persons in data zones in the tenth decile (10% least deprived data zones) is less than 2%. Between the former and latter extremes there is a more or less steady decrement in the share of income deprived persons by SIMD decile.

Comparing this with the profile for flood risk zones shows that there are disproportionately fewer income deprived persons in flood risk zones in the first and second deciles, and also in the ninth and tenth deciles. The share of income deprived people in flood risk zones in the third and eighth deciles are virtually identical to the shares of income deprived persons in these deciles nationally. Again however it is in regard to data zones grouped into the intermediate SIMD deciles, in this case the fourth to the seventh deciles that show the greatest departures. For these deciles the shares of income deprived persons in flood risk zones appear systematically greater than the shares in those deciles nationally.

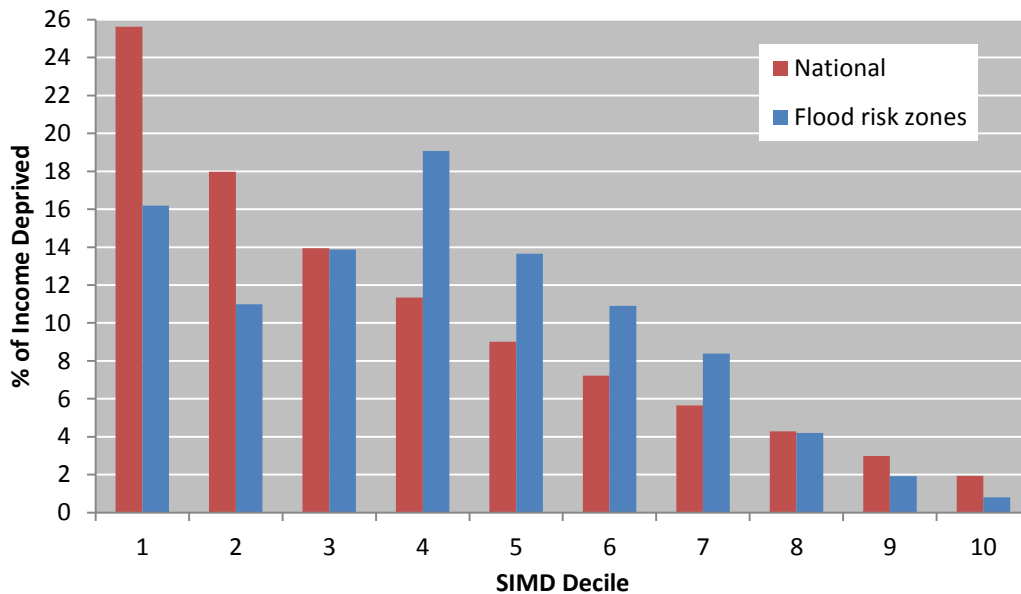


Figure 5.3. Proportion of income deprived people by SIMD decile (population weighted)

These estimates of income deprived persons reinforce the key point that persons living in the same data zone and hence grouped under the same SIMD deprivation ranking do not all necessarily experience the same type or degree of material deprivations. Income deprived persons live in data zones across all deciles, including in the lowest-ranked deciles, including data zones considered to be least deprived according to the SIMD. The share of income deprived persons in flood risk areas in the highest-ranked (first and second) deciles is lower than for the overall national picture, and this may be read positively as evidence that more vulnerable persons (and their households) are not also disproportionately exposed to flood risk. Again however, a different argument could be presented, namely that these persons are among the least likely to have home flood insurance cover in the first place, with any future increases in insurance costs thus being immaterial for these groups.

Perhaps of greater concern should be over the apparently disproportionately large shares of income deprived persons at flood risk in data zones classed in the intermediate deciles. Based on this evidence alone it cannot be said with certainty that these income deprived persons are more (or less) likely to have flood insurance than income deprived persons in higher deciles (i.e. in more deprived data zones). Nonetheless, it is another indication that residents in areas where home insurance is currently likely to more prevalent are also most likely to be impacted by increased home insurance costs related to flood insurance in future.

6 General Discussion

6.1 Groups most likely to be affected by changes to the insurance market

The results have indicated three groups that have particular potential difficulties with meeting costs of extra insurance, alone or in combination.

- Those on low incomes (below £16,000 and particularly below £11000 per annum)
- The elderly (over 70, and particularly over 80)
- Non-homeowner households (particularly those in local authority and/or housing association accommodation).

The latter two generally correlate with those low incomes. As Hayton et al. (2007) note, it is likely that income is the key determinant to the likelihood of financial exclusion in general, including insurance possession. There is a clear relationship to property tenure status, but the relationship of low income to age is more complex, with those in the very oldest and very youngest bands being relatively poor. When 2011 census data emerge later in 2012, it would be interesting to relate questionnaire findings to up-to-date information on the spatial distribution of those in the relevant age and housing categories.

In terms of income, it is possible to apply the findings of the questionnaire survey in terms of expressed difficulty to the national extrapolation from the SIMD in Section 6. It should be noted that in the SIMD calculation formula, the income domain is based on an aggregated formula that factors those claiming a variety of benefits, rather than a direct income survey. This is different to the survey conducted for this report, which used actual declared income. It therefore remains open to question just how many individuals and households may be implicated by changes to insurance costs. Using the 15%, as in this study, in the most deprived zones is a consistent method with that used in many other studies for identifying key geographical areas of income deprivation. It is possible to deal with the issue of applicability of the questionnaire survey to the SIMD by looking at a range of potential impacts across the higher deprivation rank deciles. Given the findings noted in section 4.4.1, that those on incomes up to £16,000 were still reporting impact ratings above 4 for increases in premium, there is a strong case for regarding this as the income figure that delineates the number of individuals who would potentially be impacted detrimentally by an increase in insurance availability. Within this number, there is a core group of about half who could potentially experience great difficulty, being within the top 15% of income deprived zones.

Low income and non-homeowner groups also happen to have the largest under-insurance issue across Scotland (Poverty Site, 2012; section 5.2, this report), as well as having the most pressing issues with general financial exclusion (Hayton et al., 2007). Although it might be regarded a distinct issue from any changes to flood insurance provision, it is, in fact, closely linked, since it can be viewed as a reflection of the costs of insurance already being too high in general for many members of this group, which would only get worse were these insurance costs to increase in the future.

6.2 The possible effect of changes to insurance availability and cost on communities

To assess potential effect on communities it is necessary to look to the declared actions in the event that insurance becomes unaffordable as well as the focus group findings.

In terms of areas that have experienced a flood, Morpeth, England (flooded 2009) provides an analogy for local effects of increased insurance. Morpeth flood action group (2011) found that average increases in building and contents premiums over two years post flood for owner occupier households that were flooded was 71%, compared to 9% for non-flooded households. The equivalent result for Contents-only premiums was 59% increase for flooded households, compared to 12% for non-flooded households, and a small reduction for other households. High excesses were noted for flood risk insurance among the group that had been flooded, with some in excess of £10,000.

Such pressures in the face of a real, recent flood, combined with the declared possible actions from the questionnaire (fig 4.9) and focus groups, give cause for concern. These figures from Morpeth tie in with the findings of Werritty et al. (2007) for flooded communities in Scotland particularly in terms of excesses and are certainly high enough to push many respondents over the edge of affordability. But a key question remains- what might happen to insurance in areas that are at flood risk but have not flooded recently? Figures from the the ABI's internal analysis, albeit focused on England and Wales, suggest that the level of cross subsidy in flood risk zones amounts to an under-pricing of premiums by as much as £430. This value is substantially above what many would be able to tolerate based on the current survey, with all groups up to an income of £16,000 being unwilling to pay this amount (see Figure 4.9a). Of note, the most likely to go without insurance as a consequence of increases in both premium and excess were the groups that had contents insurance alone, the bulk of whom are in the rented sector. This was corroborated by the findings of the focus groups, both of which had participants with contents insurance who said they were willing to run the risk of going without it if costs became too high.

Under-insurance is already a pervasive issue in the public rented sector. A local authority contact reported take-up of a scheme run by the authority to provide contents cover for council tenants at only the 11-12% mark. In part this may be due simply to lack of knowledge of these subsidised 'pay with rent' schemes, but it also may reflect just how much difficulty these tenants may face in meeting only a £5-£10 per month payment. Were the under-insurance problem to become worse in flood risk zones following the end of the SoP, higher numbers of communities could live at high risk of uninsured damage were a flood (or indeed any extreme weather event) to cause damage.

Although there were substantial numbers of respondents expressing a willingness to go without insurance if that option were available, and run the risk of damage rather than incur a high excess, few expressed a desire to move. For homeowners in particular, it was uncertainty about how far they would be constrained in their ability to move in future, should they wish to for other reasons, that was the main impact reported of any change in the ease of obtaining insurance.

7 Limitations of the study

A study that was set up to provide a rapid assessment of the potential social implications of changes to the insurance market on a limited budget inevitably has had to make some compromises. This is reflected in the questionnaire approach, which ideally should be followed up or even replaced entirely with an interview based mechanism for assessing insurance coverage or willingness to pay (which could be combined with the next SHS). The use of questionnaires limited the sample size and thereby restricted the complexity of the analysis since it inhibited fine disaggregation. However, the sample is still broadly representative and included a reasonable return rate from the groups in which there was particular interest, such as those on low incomes.

A further limitation is inherent to the GIS methodology, which inevitably involves a degree of spatial aggregation that restricts the accuracy of the derived figures. The extrapolations made here do take into account the distribution of addresses within data zones of the SIMD and are therefore an improvement on earlier work. However, they still apportion the same deprivation index to multiple groups of houses. More detailed local analysis could usefully follow this broad scale work, such as looking at the distribution of houses in the social rented sector in relation to flood risk zones.

It should be noted also that the estimates of the total number of people who would be most affected does not include estimates of pluvial (heavy rain induced, generally urban) flooding, and was based on a more conservative risk level than that used by the insurance industry (1 in 200 years). Other limitations of the study are the small (albeit reasonably representative) sample size and the fact that it did not have clear cut scenarios to present to participants, falling back on hypothetical scenarios.

Finally, this study has been constrained by lack of knowledge, at the time it was written, of the precise model on which future frameworks for provision in flood risk areas will be based. Given this continuing uncertainty and the other limitations, we recommend that by July 2014 a follow-up report should be commissioned to review the new procedures put in place by Government and the insurance industry post-July 2013 in the light of these findings. This report should include the following:

1. Re-survey of the most vulnerable groups in high flood risk areas. This to include re-visiting some respondents to elicit their reaction to changes in their flood insurance post July 2013
2. Re-assessment of social vulnerability in any revision of the 2011 Preliminary Flood Risk Assessment that may result future developments such as the production of flood hazard and risk maps.
3. Incorporation of urban pluvial flooding potential to the hazard assessment.
4. Evaluation of social vulnerability in local flood risk management plans being developed by Local Authorities.
5. Review progress made in data availability and transparency, in consultation with the ABI and other representative bodies such as BIBA.
6. Review of the uptake of resistance and resilience measures across Scotland and changes in the way such measures are viewed by the insurance industry, again in close consultation with industry bodies.

8 Conclusions and recommendations

The following conclusions emerge from this study:

1. There is a clear social aspect to the potential changes in the insurance market that may result from the end of the Statement of Principles. The impacts can be identified clearly by reference to income levels. Households with a principal income earner on a pre-tax income of up to £16000 report impact ratings above four for increases in premium of £200 per year for combined buildings and contents policies. There is a strong case for regarding £16000 as the income figure that delineates the number of individuals who would potentially be impacted detrimentally by an increase in insurance cost. Within this number, there is a core group of about half who could potentially experience great difficulty, being within the top 15.1% of income deprived zones.
2. Homeowners with insurance at present will continue, in general, to have cover made available to them after July 2013, but this is likely to be qualified in a number of ways. In high risk areas (greater than 1 in 75 year probability) premiums and/or excesses are likely to rise towards the true market price. There remains great uncertainty about the extent of these rises and the effect they have on the mortgage market and the flexibility of homeowners to move. If the full cross subsidy of £430 from low to high risk areas were to be removed, there would be impact across a wide range of income levels, something that homeowners are anxious about due to these potential effects.
3. In spite of reassurances by the insurance industry that coverage will continue to be offered in significant flood risk zones after the end of the Statement of Principles, this study has made clear that any change in costs may make living with increased risk of sudden financial hardship a reality for many households in Scotland. Moreover, impacts may be most keenly felt in the very households that have the lowest uptake of insurance at present: those renting and/or in the social housing sector. *It is recommended that renewed emphasis be given to encouraging the uptake of subsidised insurance schemes by location authorities and that the premium costs of such schemes be limited as much as possible.*
4. A particular area of concern among insurers is that they have had difficulty to date in accessing information on improvements which may substantially reduce the flood risk for individual properties. As a successor agreement takes shape, a key priority is data sharing in respect of properties likely to experience issues through being located in particularly high risk zones. This sharing should ideally be two-way, from the insurance industry to local and central Government, and SEPA, and also ideally vice-versa. The production of flood hazard and flood risk maps by SEPA is an important step in this process. *It is recommended that measures be expedited to facilitate such data sharing including the rapid conclusion of licensing issues.*

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APPENDIX 1 SURVEY SAMPLE CHARACTERISTICS

- INCOME

Figures for income of the principal household earner (Fig A1.1) were compared to a national income survey as derived from Social and welfare: Income and Poverty Statistics (Scottish Government, 2011). A substantial proportion of questionnaires were returned from those below the median Scottish income (pre-tax) of £21788.

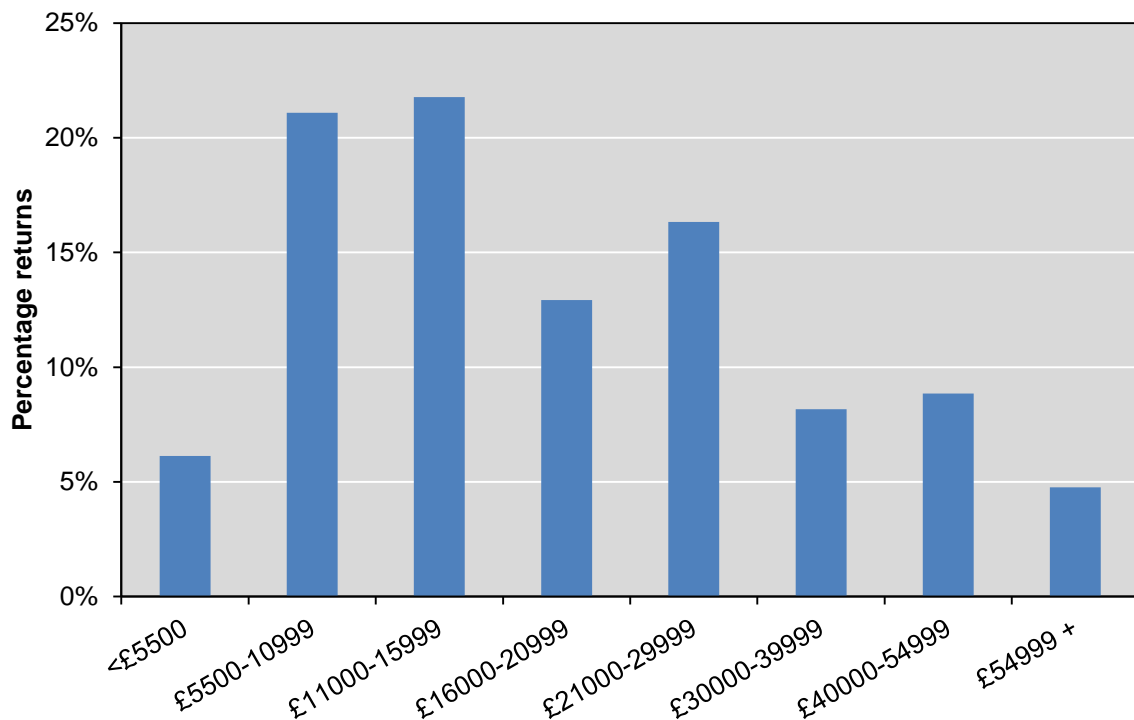


Figure A1.1 Declared pre-tax income distribution of the questionnaire respondent (principal earner)

- AGE

Age distribution was compared to census data from the General Registers of Scotland (GROS).

Although age brackets chosen for the questionnaire were deciles rather than the 15 year intervals reported by the GROS, a clear pattern nonetheless emerges. A larger proportion of returns were obtained from those in the 60+ and older brackets (particularly 70+ and older) than the national average (figure A1.2). In fact, nearly half (75) of the sample were retirees.

- EMPLOYMENT

Employment categories were allocated based on the ONS... occupational unit group (OUG) level of the Standard Occupational Classification 2010 (SOC 2010). There was a fairly close approximation to the national profile (Figure A1.3), with a broad spread across skilled, semi-skilled and elementary occupations. 'Professional' occupations were the one category over-represented in the sample.

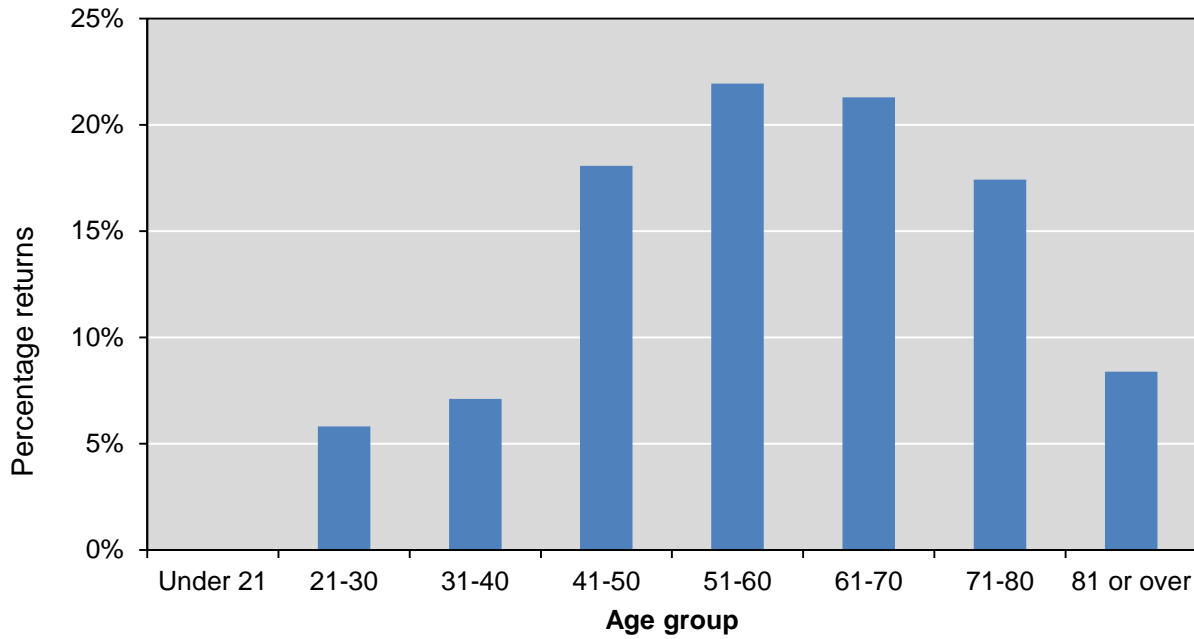


Figure A1.2 Age profile of the questionnaire sample

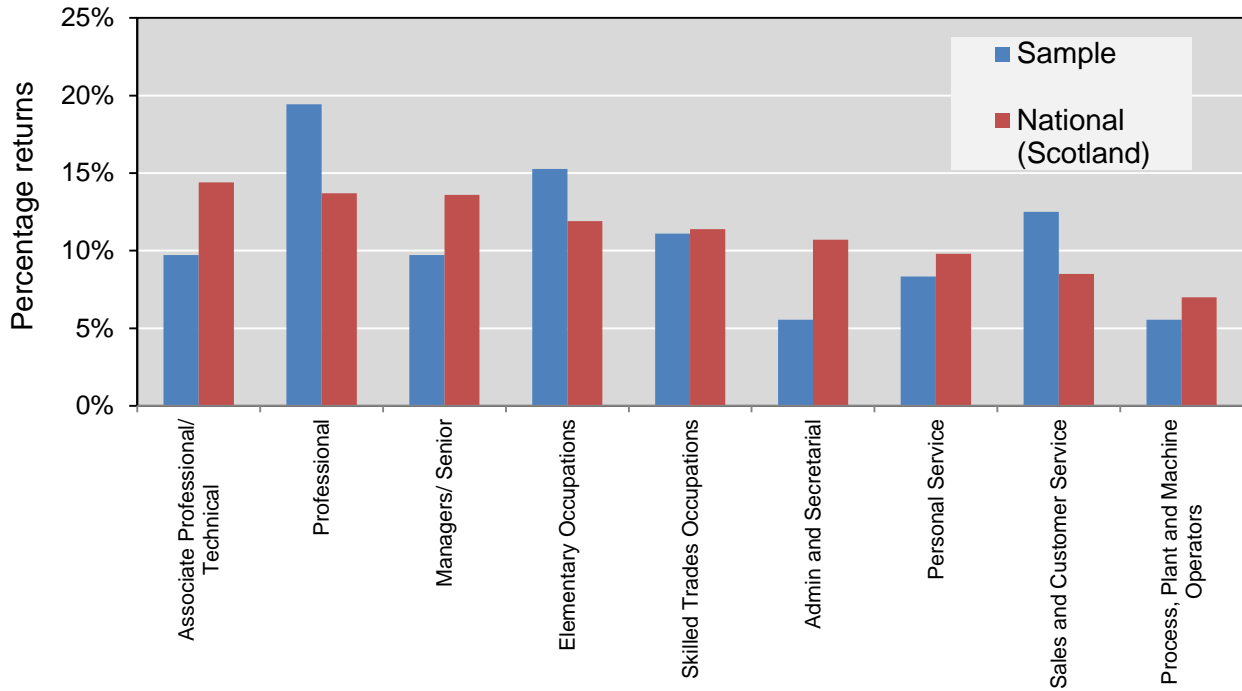


Figure A1.3 Distribution of population in employment across trade categories. Source for national data: Scottish Government. Annual Population Survey, Jan-Dec 2011 available at www.scotland.gov.uk/Publications/2011/08/09172458/4#chartone-eight.

- HOUSING

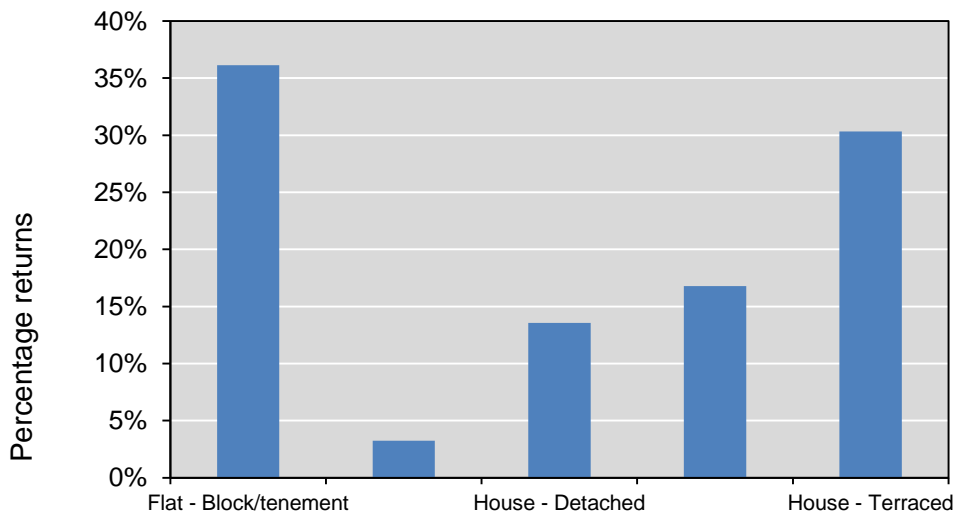


Figure A1.4 Housing type composition of the questionnaire sample

In terms of tenure, questionnaire responses relative to the Scottish average were slightly biased towards owner-occupiers as compared to those renting or participating in shared ownership schemes. Thus 79% of respondents in owner-occupied properties compares with a national average of approximately 65% owner occupation (SHS, 2010). Of those in the renting category, approximately 10% were in the private rented and 5% and 3% in the public rented and housing association sectors. This compares with national averages of 10% private rented, 11% Housing association and 14% rented from local authority.

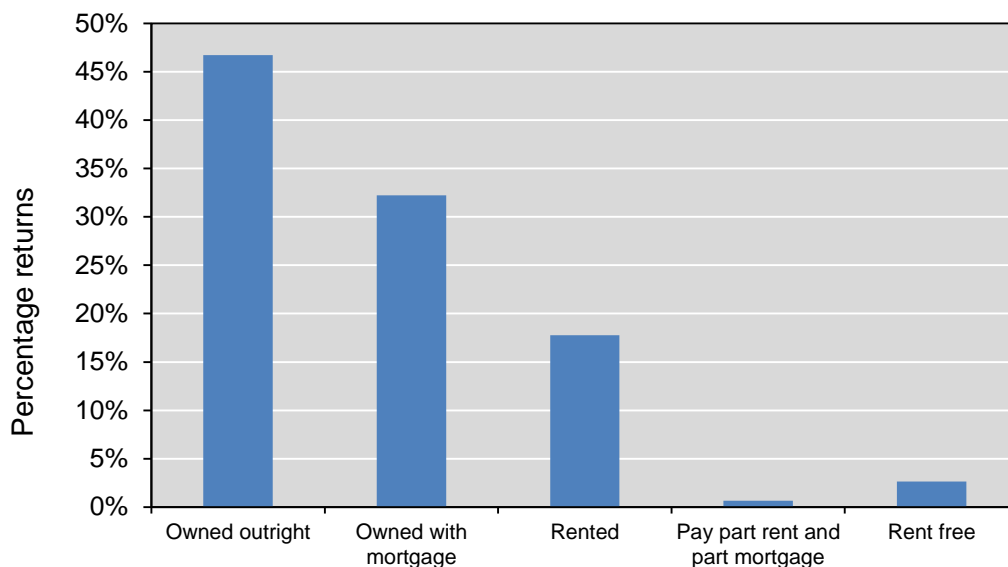
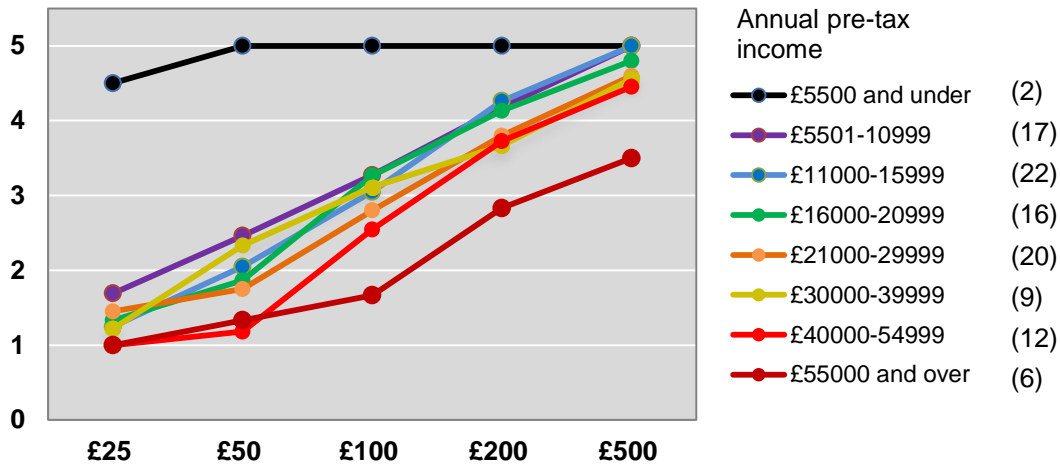


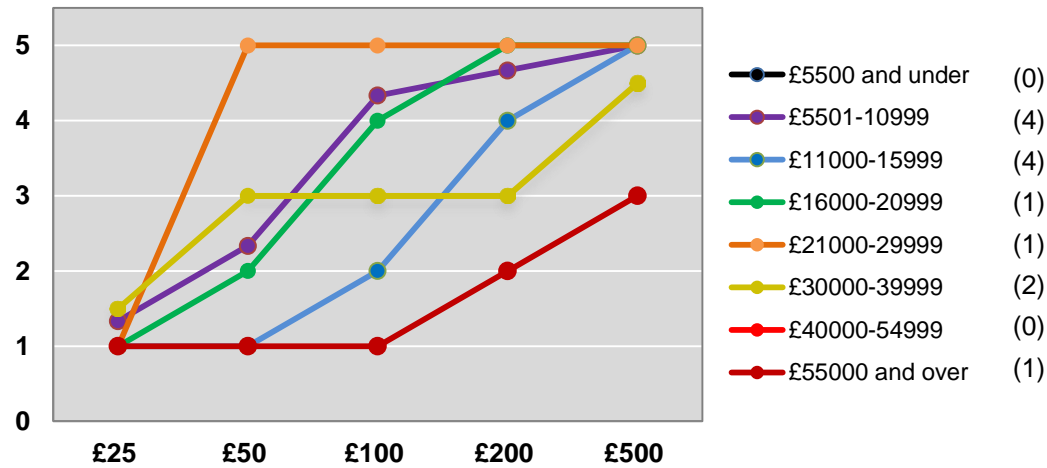
Figure A1.5 Tenure type composition of the questionnaire survey returns

APPENDIX 2 Detailed questionnaire results

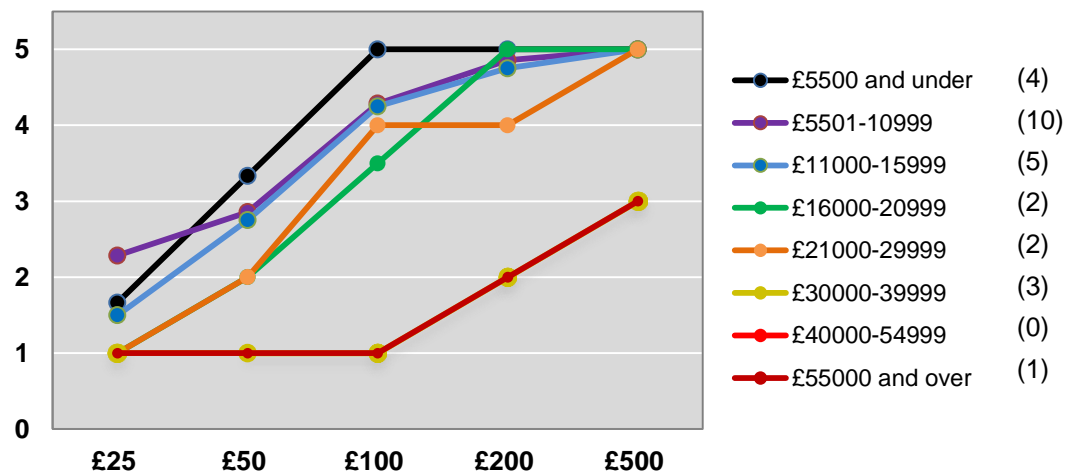
Degree of difficulty (1=very easy; 5 = very difficult)



a. Building and contents combined



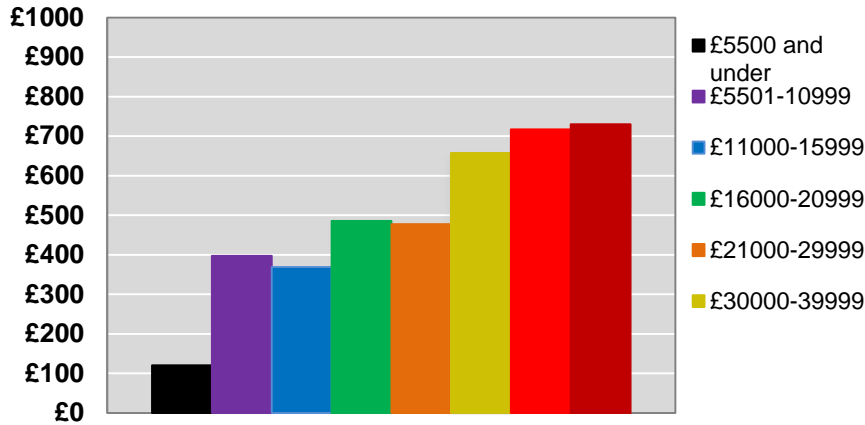
b. Building only



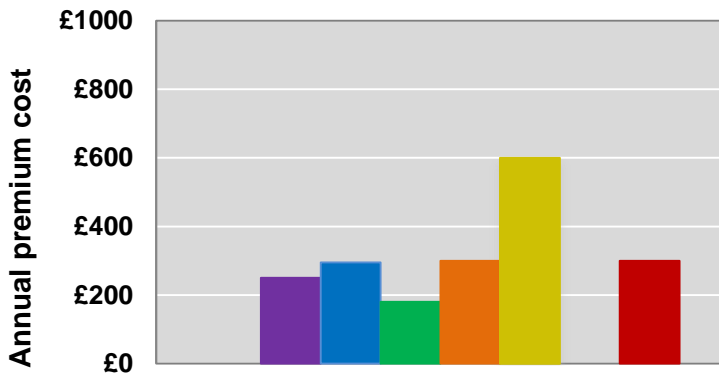
Increase in annual premium

c. Contents only

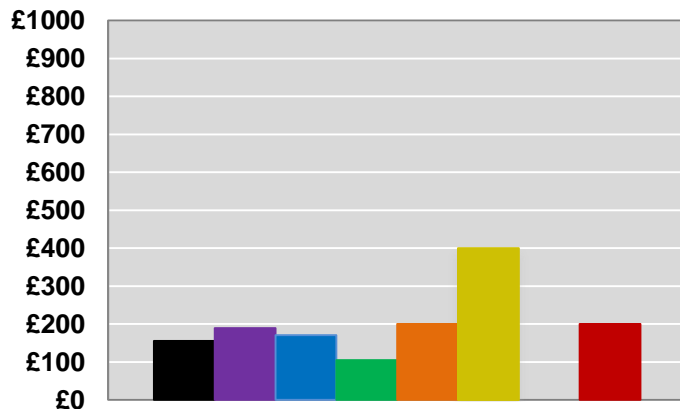
Figure A2.1 Expressed degree of difficulty of meeting increases in annual insurance premium, cross tabulated by income of principal household earner. Sample size of the disaggregated group in brackets.



a. Building and contents combined



b. Building only



c. Contents only

Figure A2.2 Expressed average maximum insurance premium that respondents were willing to pay for their current level of insurance cover, by income category. Samples sizes in Figure A2.1.

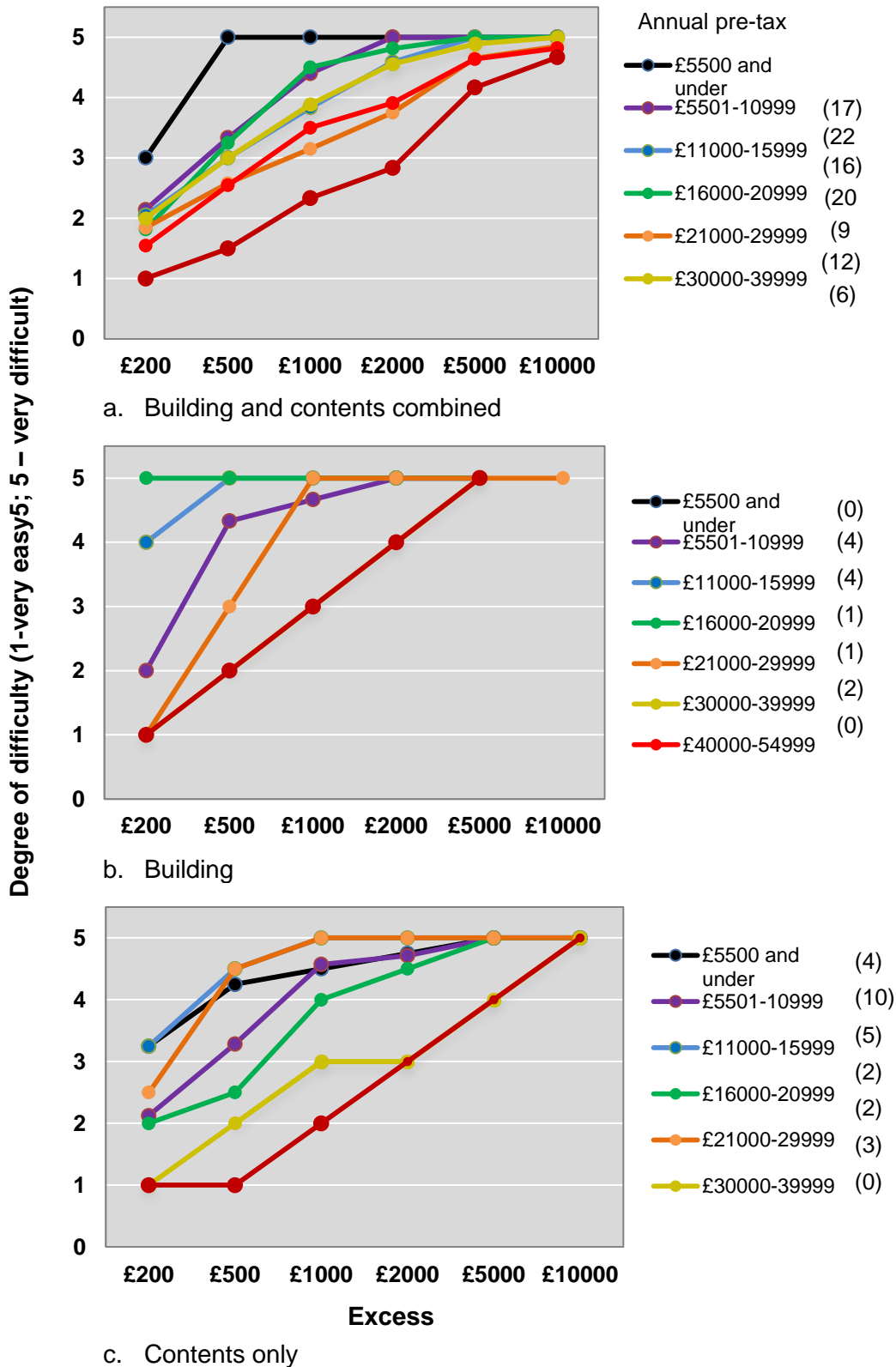
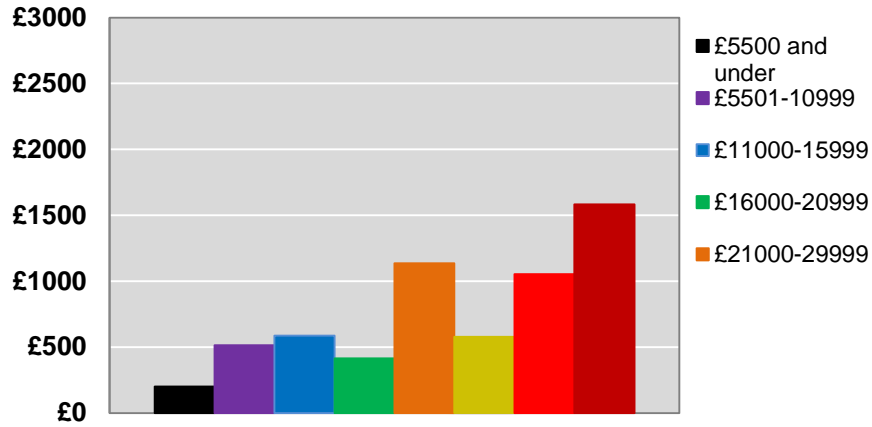
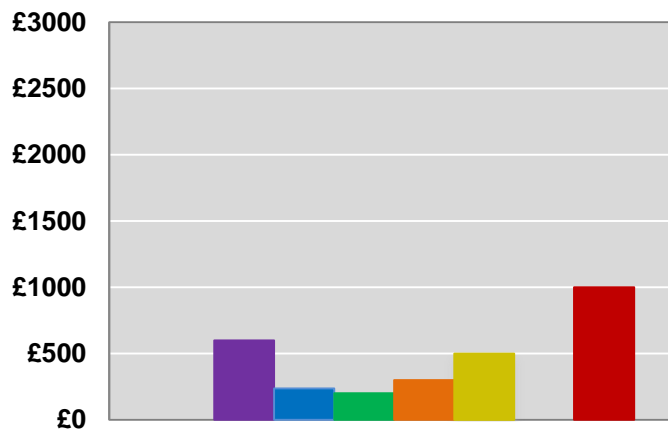


Figure A2.3 Expressed degree of difficulty of paying of meeting excess payments on a hypothetical claim of £30000, cross tabulated by income of principal household earner. Sample sizes in brackets.

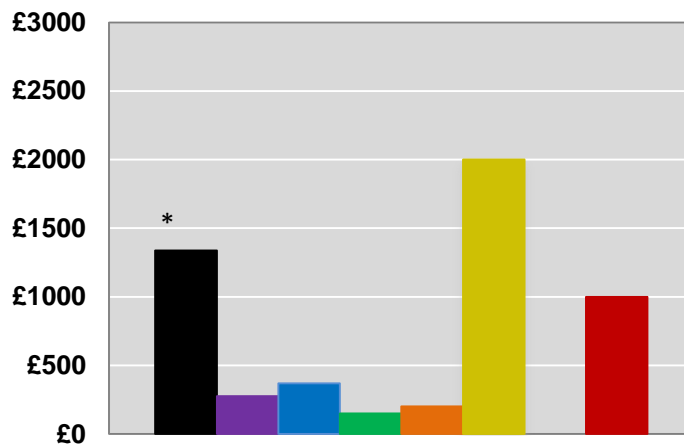


a. Building and contents combined

Excess – maximum willing to pay

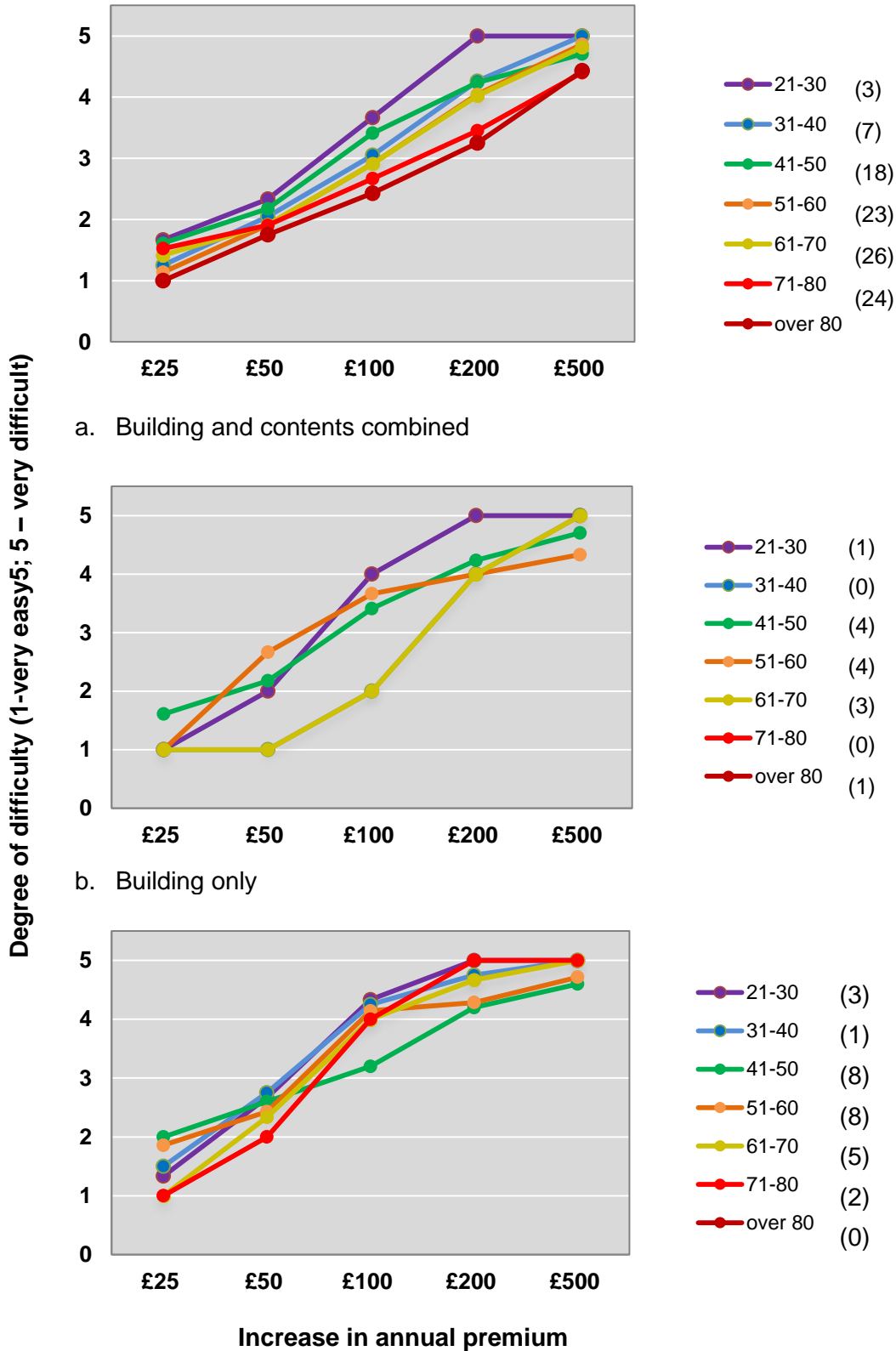


b. Building only



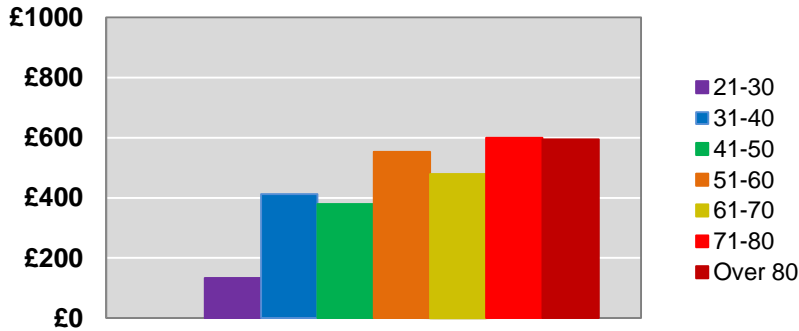
c. Contents only

Figure A2.4 Expressed maximum excess that respondents were willing to pay on a hypothetical claim of £30000, cross tabulated by income. Sample sizes in fig A2.3. [* contains outlier of £5k.]

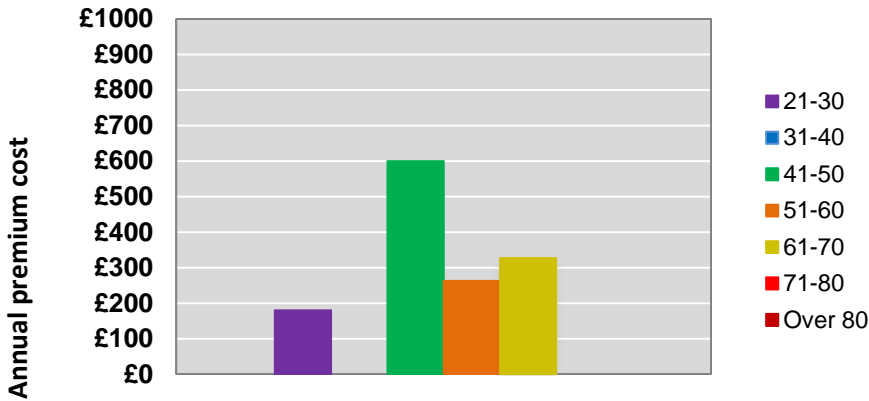


c. Contents only

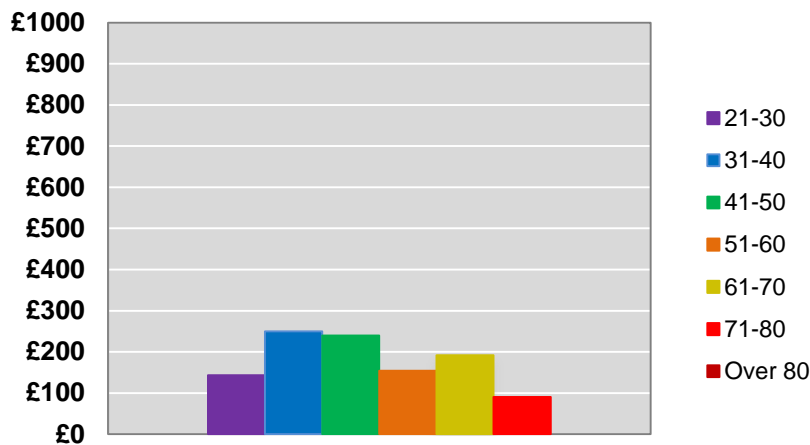
Figure A2.5. Expressed degree of difficulty of meeting increases in annual insurance premium, cross tabulated by age of head of household. Sample size in brackets.



a. Building and Contents combined



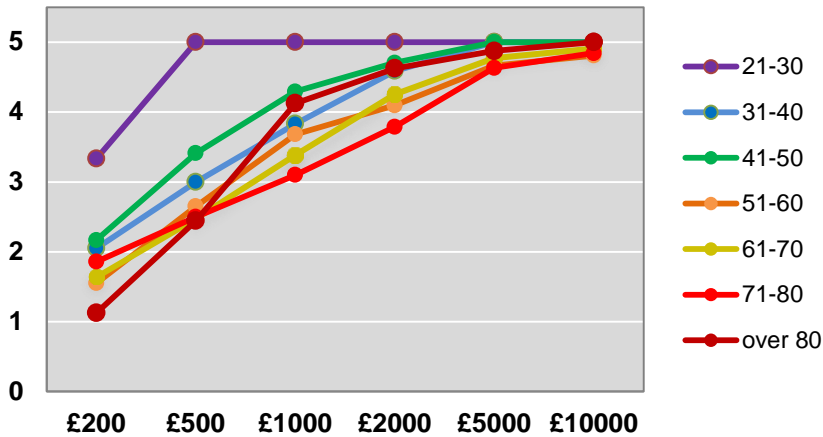
b. Building only



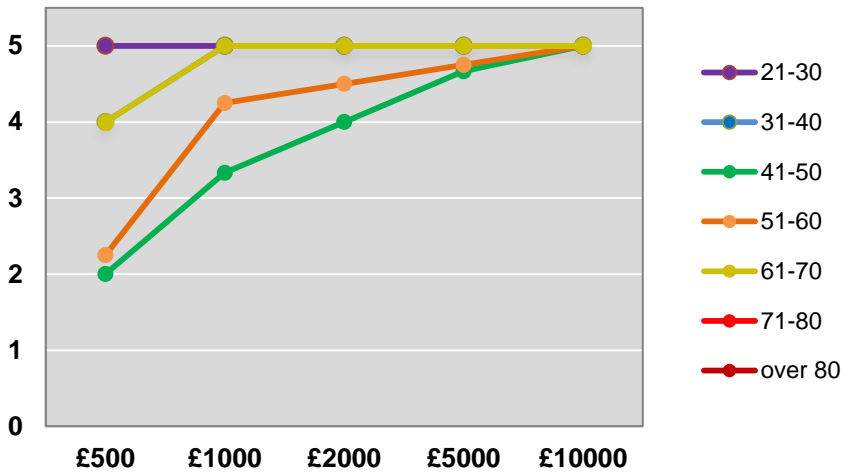
c. Contents only

Fig A2.6 Expressed average maximum premium that respondents were willing to pay for their current level of insurance cover, by age. Sample size in figure A2.5.

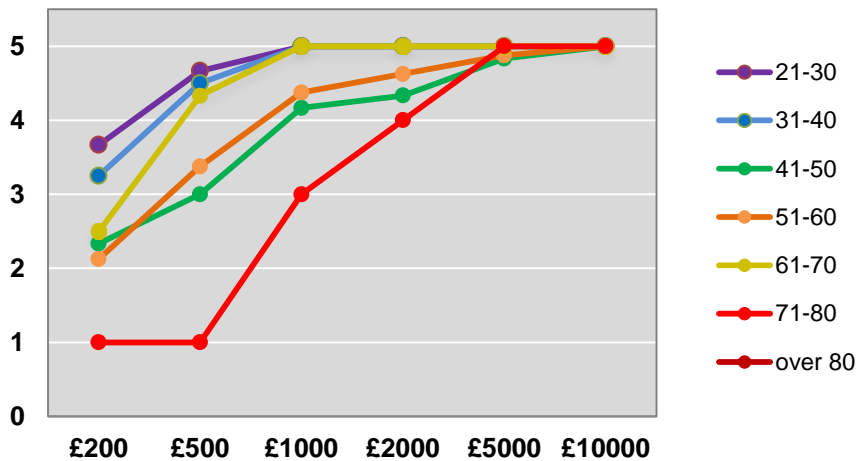
Degree of difficulty (1-very easy; 5 - very difficult)



a. Building and contents combined

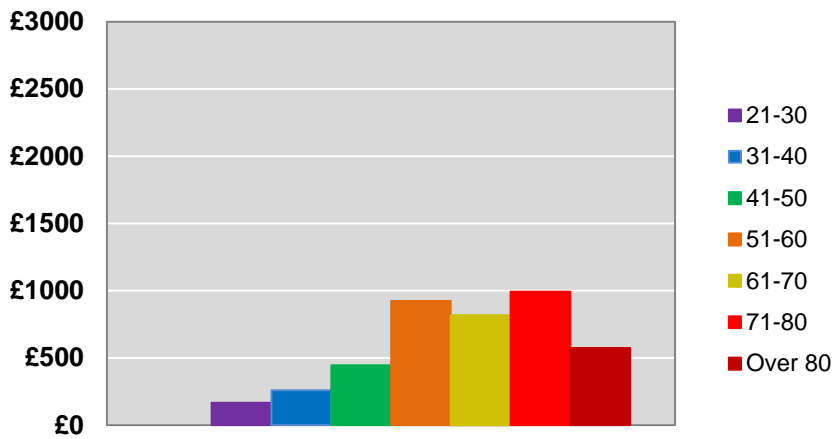


b. Building only

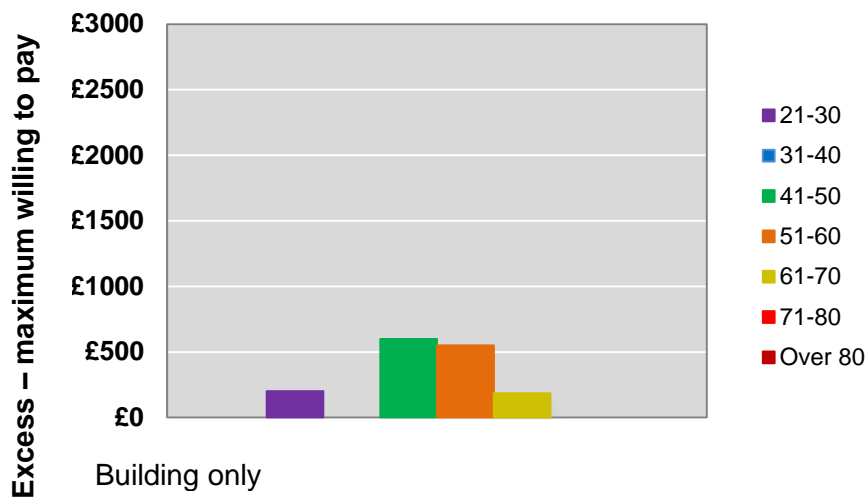


c. Contents only

Figure A2.7 Expressed degree of difficulty in meeting excess payment on a hypothetical claim of £30,000, cross tabulated by age of head of household. Sample sizes in fig A2.5



a. Building and contents combined



Building only

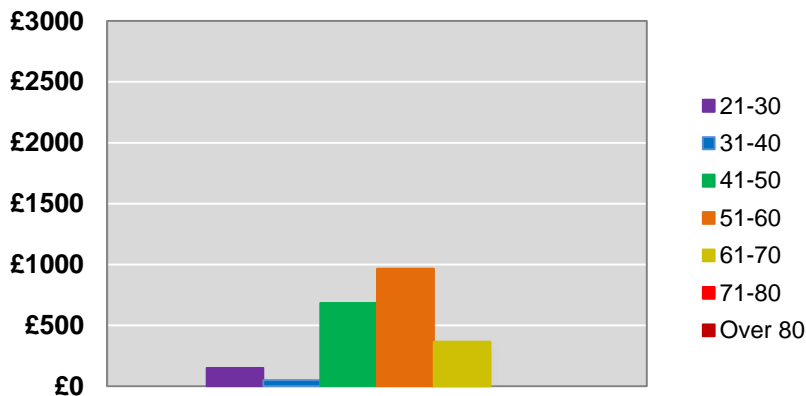


Figure A2.8 Expressed maximum excess that respondents were willing to pay on a hypothetical claim of £30,000, cross tabulated by income. Sample sizes in fig A2.5.

APPENDIX 3 INSURANCE PROVISION AND AFFORDABILITY QUESTIONNAIRE

Please take some time to answer these questions and mail the form back using the FREEPOST envelope provided, by **Friday 18th May**. **There is no need for a stamp**. You can answer as many questions as you want to, but it would be very helpful if you complete all that apply to you. The form can also be completed online at by following a link at www.dundee.ac.uk/geography.

Responses you will give will be treated in confidence – please see the accompanying letter for important information on protection of confidentiality and privacy, and how the Scottish Government will use the data.

Who should complete this questionnaire?

The head of household (the person normally responsible for paying the rent or mortgage on the property, or who is liable for the majority of the household bills).

How to complete the questionnaire

Please use blue or black ink.

Put a tick in the appropriate box like this . If you mark the wrong box, fill it in and put a tick in the correct one, like this . If you tick a box that is followed by an instruction – e.g Go to Question 6, move straight on to the question(s) indicated, missing out any in between. **YOU NEED ONLY FILL OUT THE COLOURED SHEETS THAT APPLY TO YOU.**

SECTION A.

1. What type of home do you live in?

- Flat* in a purpose built block/ tenement
- Flat* part of a converted or shared house
- House – detached
- House – semi-detached
- House – terraced (including end terrace).

*Includes multi-storey flats or maisonettes

2. What is the lowest floor level of your household's living accommodation?

- Basement
- Ground floor (street level)
- First floor (the floor above street level)
- Second floor or higher

3. How many adults and children live in the accommodation, including you?

- | ADULTS | CHILDREN (under 18) |
|------------------------------------|------------------------------------|
| <input type="checkbox"/> 1 | <input type="checkbox"/> 0 |
| <input type="checkbox"/> 2 | <input type="checkbox"/> 1 |
| <input type="checkbox"/> 3 | <input type="checkbox"/> 2 |
| <input type="checkbox"/> 4 or more | <input type="checkbox"/> 3 or more |

4. What is your occupation? (fill in the box or tick one of boxes below it if it applies)

- Retired
- Unemployed
- Student

5. What is your approximate pre-tax income per year?

- | | |
|--|--|
| <input type="checkbox"/> Under £5,500 | <input type="checkbox"/> £21,000-£29,999 |
| <input type="checkbox"/> £5,501-£10,999 | <input type="checkbox"/> £30,000-£39,999 |
| <input type="checkbox"/> £11,000-£15,999 | <input type="checkbox"/> £40,000-£54,999 |
| <input type="checkbox"/> £16,000-£20,999 | <input type="checkbox"/> £55,000 or over |

6. What is your age?

- | | |
|-----------------------------------|-------------------------------------|
| <input type="checkbox"/> Under 21 | <input type="checkbox"/> 51-60 |
| <input type="checkbox"/> 21-30 | <input type="checkbox"/> 61-70 |
| <input type="checkbox"/> 31-40 | <input type="checkbox"/> 71-80 |
| <input type="checkbox"/> 41-50 | <input type="checkbox"/> 81 or over |

7. Which of the following best describes your ownership status at this property?

- Owned outright (no mortgage or loan) ➔
- Owned with mortgage or loan ➔
- Pay part rent and part mortgage (shared ownership)
- Live here rent free

Go to
Question 9

8. Who is your landlord?

- Council (Local Authority)
- Housing Association or Trust
- Private landlord or letting agency
- Employer of a household member
- Relative or friend of a household member
- Other

9. Which of the following statements best describes your situation in relation to home insurance?

- I do not have insurance for building or contents **
➔GO TO Section B (this page, at left) and **complete only that section**
- I have insurance for both building and contents, on a single policy
➔GO TO Section C (yellow) and **complete those 2 pages**

** **Building Insurance** is insurance that covers the structure and fabric of the building and fixtures that cannot be moved

Contents Insurance is insurance that covers moveable items

- I have insurance for both building and contents, on separate policies
➡GO TO **Section D** (green) and **complete sections D and E**
- I have insurance for just the building
➡ GO TO **Section D** (green) and **complete those 2 pages**
- I have insurance for just the contents
➡GO TO **Section E** (orange) and **complete those 2 pages**

SECTION B.

Only fill out questions in this section if you have no insurance for either building or contents

B1. Have you ever had insurance for building or contents, at your current address?

- Yes ➡ Go to question B2
- No ➡ Go to question B3

B2. When you had insurance, was damage from floods covered?

- Yes
- No

B3. What is the reason for you not having building insurance at the moment (tick any that apply)?

SECTION C.

Only fill out questions in this section if you have a combined building and contents insurance policy

C1. How much do you currently pay for your home insurance premium per year? £

C2. Have you made any claims on your home insurance at this address since the start of 2009?

- Yes ➡ Go to question C3
- No ➡ Go to question C4

- You don't need to because it is the responsibility of the landlord / property owner
 - The premium you could obtain is too high for you to afford
 - The excess (the amount you would have to pay toward the cost of a claim if you claimed) is too high for you to afford
 - You could afford it, but prefer not to pay the premium costs
 - You cannot obtain it
- Other (please specify) _____

B4. What is the reason for you not having contents insurance at the moment (tick any that apply)?

- You don't need to because it is the responsibility of the landlord / property owner
- The premium you could obtain is too high for you to afford
- The excess (the amount you would have to pay toward the cost of a claim if you made a claim) is too high for you to afford
- You could afford it, but prefer not to pay the premium costs
- You cannot obtain it.

If you have no home insurance (building or contents) - QUESTIONNAIRE COMPLETE. PLEASE POST USING THE FREEPOST ENVELOPE PROVIDED, ENCLOSING THE CONSENT FORM AS WELL ➡

C3. Were any of these claims related to flood damage? (not including damage due to e.g. burst pipes or faulty appliances)

- Yes
- No

C4. Which of the following best reflects how your annual premium has changed during the period from the start of 2009 to now?

- Increased by more than 20%
- Increased by less than 20%
- Stayed about the same

- Decreased
- Don't know/ not sure

C5. What is the excess on your insurance policy (the excess is the amount you would have to pay towards a claim if you made one)?

£

C6. Since the start of 2009, what best describes the trend in your excess?

- Increased by more than 20%
- Increased by less than 20%
- Stayed about the same
- Decreased
- Don't know/ not sure
- Haven't lived here that long

There are now some questions that ask you to think about and rate how easily you could afford insurance costs in the future. Please answer these by placing a number in each of the boxes from 1 (very easy) to 5 (very difficult)

EXAMPLE-My annual premium increases by £5. I can easily afford it, so I write a 1 in the box

£5
increase

difficulty
(1-5)

1

C8. Imagine that costs of your annual insurance premium increase by the following amounts. Write in the box a number that reflects how much difficulty you would have affording it. Assume that the level of cover remains the same as you have at present

Premium

£25
increase

difficulty
(1-5)

£50
increase

difficulty
(1-5)

£100
Increase

difficulty
(1-5)

£200
Increase

difficulty
(1-5)

£500
Increase

difficulty
(1-5)

PLEASE TURN OVER →

C9. What is the maximum annual premium amount that you would be able or willing to pay for the insurance cover that you have at the moment?

C10. If the premium increased to a level beyond what you were able or willing to pay, which of the following might you do (tick any that apply)?

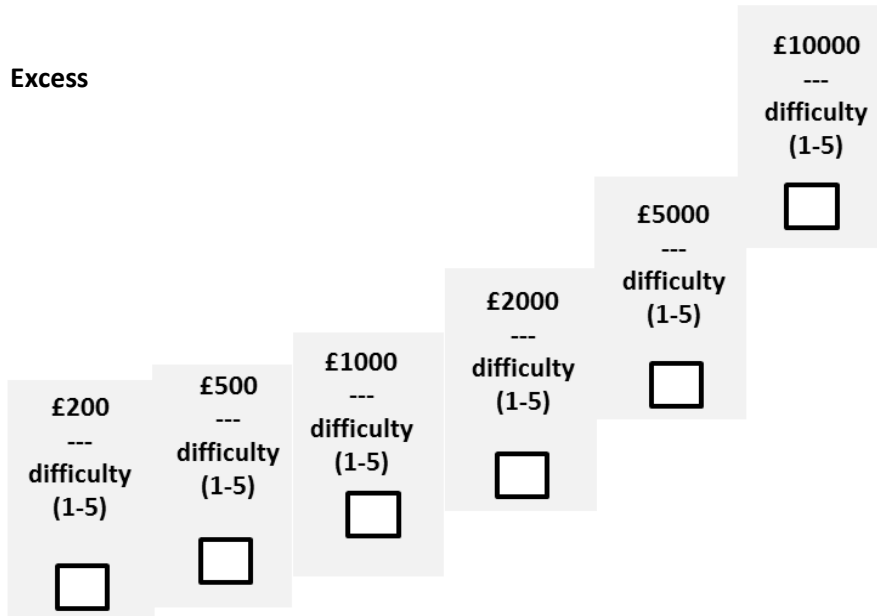
- Move to another insurer
- Consider moving away from the area to one where more affordable insurance was available

- Consider reducing my level of cover (e.g. removing cover for valuables)
- Go without insurance
- I don't know
- OTHER (please specify) _____

C11. The six scenarios in the following boxes each relate to the excess payable on home (buildings and contents) insurance: the amount that you would have to pay in the event that you claimed. For each please again add a number from 1 to 5 in the box that describes how easily you could pay that excess, going from 1 (very easy) to 5 (very difficult)

Assume that:

- Building and contents insurance are combined on the same policy
- Level of cover remains the same in each scenario
- You can afford to pay your annual insurance premium
- You would have to pay the excess stated straight away to proceed with a claim for £30 000.



C12. What is the maximum excess you would be able or willing to pay, in order to settle the claim for £30 000?

C13. If the excess that were required to pay increased to a level beyond what you were able or willing to pay, which of the following would you do (tick any that apply)?

- Move to another insurer
- Consider moving away from the area to one where more affordable insurance was available
- Consider reducing the level of cover (e.g. removing cover for valuables)
- Go without insurance I don't know
- OTHER (please specify) _____

SECTION D

Only fill out questions in this section if you have just building insurance or if you have building

insurance on a separate policy to your contents insurance

D1. How much do you currently pay for your building insurance premium per year? £

D2. Have you made any claims on your building insurance at this address since the start of 2009?

- Yes ➔ Go to question D3
- No ➔ Go to question D4
- Haven't lived here that long ➔ Go to question D5

D3. Were any of these claims related to flood damage? (not including damage due to e.g. burst pipes or faulty appliances)

- Yes
- No

D4. Which of the following best reflects how your annual premium has changed during the period from the start of 2009 to now?)

- Increased by more than 20%
- Increased by less than 20%
- Stayed about the same
- Decreased
- Don't know/ not sure

D5. What is the excess on your building insurance policy (the excess is the amount you would have to pay towards a claim if you made one)?

£

D6. Since the start of 2009, what best describes the trend in your excess?

- Increased by more than 20%
- Increased by less than 20%
- Stayed about the same
- Decreased
- Don't know/ not sure
- Haven't lived here that long

D7. What are the main things you take into consideration in choosing building insurance? (tick any that apply)

- Level of cover
- Competitive premium
- Competitive excess
- Reputation of company
- Other (please specify below)

_____ £

There are now some questions that ask you to think about and rate how easily you could afford insurance costs in the future. Please answer these by placing a number in each of the boxes from 1 (very easy) to 5 (very difficult).

EXAMPLE - My annual premium increases by £5. I can easily afford it, so I write a 1 in the box



£5
increase

difficulty
(1-5)

D8. Imagine that costs of your annual insurance premium increase by the following amounts. Write in the box a number that reflects how much difficulty you would have affording it. Assume that the level of cover remains the same as you have at present

Premium

<p>£25 increase --- difficulty (1-5) <input type="text"/></p>	<p>£50 increase --- difficulty (1-5) <input type="text"/></p>	<p>£100 Increase --- difficulty (1-5) <input type="text"/></p>	<p>£200 Increase --- difficulty (1-5) <input type="text"/></p>	<p>£500 Increase --- difficulty (1-5) <input type="text"/></p>
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D9. What is the maximum annual premium amount that you would be able or willing to pay for the building insurance cover that you have at the moment?

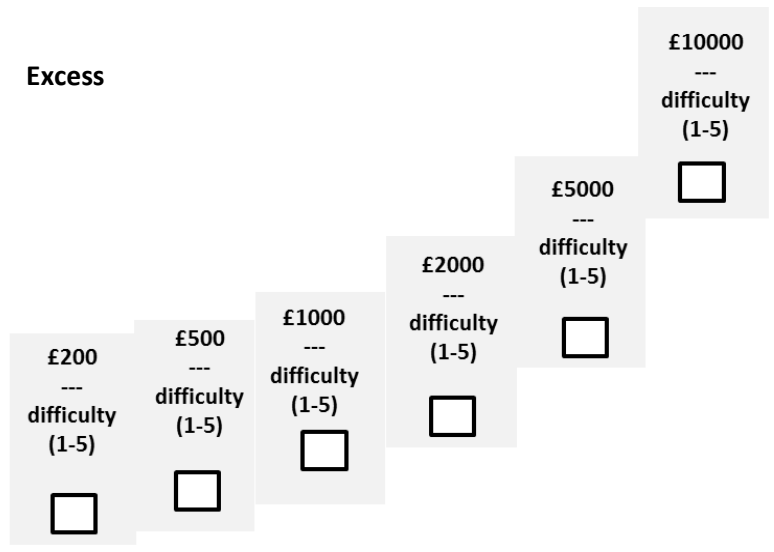
D10. If the premium increased to a level beyond what you were able or willing to pay, which of the following might you do (tick any that apply)?

- Move to another insurer
- Consider moving away from the area to one where more affordable insurance was available
- Consider reducing my level of cover (e.g. removing cover for valuables)
- Go without insurance
- I don't know
- OTHER (please specify) _____

D11. The six scenarios in the following boxes each relate to the excess payable on building insurance: the amount that you would have to pay in the event that you claimed. For each please again add a number from 1 to 5 in the box that describes how easily you could pay that excess, going from 1 (very easy) to 5 (very difficult).

Assume that:

- Level of cover remains the same in each scenario
- You can afford to pay your annual insurance premium
- You would have to pay the excess stated straight away in order to proceed with a claim for £30 000



D12. What is the maximum excess you would be able or willing to pay, in order to settle the claim for £30 000? £

D13. If the excess that were required to pay increased to a level beyond what you were able or willing to pay, which of the following would you do (tick any that apply)?

- Move to another insurer
- Consider moving away from the area to one where more affordable insurance was available
- Consider reducing the level of cover
- Go without insurance
- I don't know
- OTHER (please specify) _____

SECTION E.

Only fill out questions in this section if you have just home contents insurance or if you have contents insurance on a separate policy to your building insurance

E1. How much do you currently pay for your contents insurance premium per year? £

E2. Have you made any claims on your contents insurance at this address since the start of 2009?

- Yes ➔ *Go to question E3*
- No ➔ *Go to question E4*
- Haven't lived here that long ➔ *Go to question E5*

E3. Were any of these claims related to flood damage? (not including damage due to e.g. burst pipes or faulty appliances)

- Yes
- No

E4. Which of the following best reflects how your annual premium has changed during the period from the start of 2009 to now?)

- Increased by more than 20%
- Increased by less than 20%
- Stayed about the same
- Decreased
- Don't know/ not sure

E5. What is the excess on your home contents insurance policy (the excess is the amount you would have to pay towards a claim if you made one)?

£

E6. Since the start of 2009, what best describes the trend in your excess?

- Increased by more than 20%
- Increased by less than 20%
- Stayed about the same
- Decreased
- Don't know/ not sure

- Haven't lived here that long

E7. What are the main things you take into consideration in choosing home contents insurance? (tick any that apply)

- Level of cover
- Competitive premium
- Competitive excess
- Reputation of company
- Other (please specify below)

There are now some questions that ask you to think about and rate how easily you could afford insurance costs in the future. Please answer these by placing a number in each of the boxes from 1 (very easy) to 5 (very difficult)

EXAMPLE - My annual premium increases by £5. I can easily afford it, so I write a 1 in the box

£5
increase

difficulty
(1-5)

E8. Imagine that costs of your annual insurance premium increase by the following amounts. Write in the box a number that reflects how much difficulty you would have affording it. Assume that the level of cover remains the same as you have at present

Premium					
	£25 increase --- difficulty (1-5) <input type="text"/>	£50 increase --- difficulty (1-5) <input type="text"/>	£100 Increase --- difficulty (1-5) <input type="text"/>	£200 Increase --- difficulty (1-5) <input type="text"/>	£500 Increase --- difficulty (1-5) <input type="text"/>

PLEASE TURN
OVER

E9. What is the maximum annual premium amount that you would be able or willing to pay for the home contents insurance cover that you have at the moment?

£

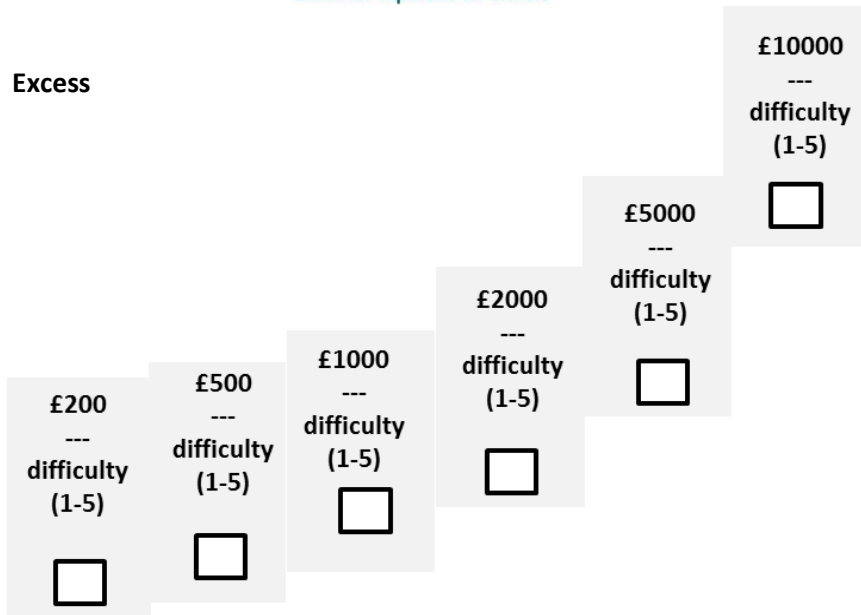
E10. If the premium increased to a level beyond what you were able or willing to pay, which of the following might you do (tick any that apply)?

- Move to another insurer
- Consider moving away from the area to one where more affordable insurance was available
- Consider reducing the level of cover (e.g. removing cover for valuables)
- Go without insurance
- I don't know
- OTHER (please specify) _____

Assume that:

- Level of cover remains the same in each scenario
- You can afford to pay your annual insurance premium
- You would have to pay the excess stated straight away to proceed with a claim for £30 000.

E11. The six scenarios in the following boxes each relate to the excess payable on home contents insurance: the amount that you would have to pay in the event that you claimed. For each please again add a number from 1 to 5 in the box that describes how easily you could pay that excess, going from 1 (very easily) to 5 (very difficult).



E12. What is the maximum excess you would be able or willing to pay, in order to settle the claim for £30 000?

£

E13. If the excess that were required to pay increased to a level beyond what you were able or willing to pay, which of the following would you do (tick any that apply)?

- Move to another insurer
- Consider moving away from the area to one where more affordable insurance was available
- Consider reducing the level of cover (e.g. removing cover for valuables)
- Go without insurance
- I don't know OTHER (please specify) _____

APPENDIX 4

QUESTIONS POSED TO THE INSURANCE PROFESSIONALS AND IN QUESTIONNAIRE TO THE REPRESENTATIVES OF SCOTS (note not all questions put to all interviewees)

The Working Groups refer to the Defra report *Flood risk and insurance: a roadmap to 2013 and beyond* published in December 2011.

Working Group 1

1. The Defra/Insurance sector WG1 observed that "the primary problem in the future will be the affordability rather than the availability of insurance". How do insurers propose to address this challenge?
2. Do insurers have a view on whether the creation of a "risk pool" would be an effective and efficient way of meeting the criterion of equability?

Working Group 2

3. Virtually all of WG2 analysis based on conditions in England and Wales. Has any comparable assessment been made for Scotland?
4. What access do the insurers have to SEPA's flood risk assessment? Are there any protocols for sharing data? If so, what are they?

Working Group 3

5. How do insurers take into account the use of property level flood resistance measures by householders?
6. Will insurers be encouraging resilient repair after a claim? If so, how?
7. What do insurers see as the relative roles of regulation and facilitation in promoting greater take up of property level flood resistance and resilience measures?

Changing nature of flood risk management

8. Will there be a more risk based approach to pricing insurance once the Statement of Principles ends?
9. Will insurers publish the basis upon which flood risk is assessed and priced?
10. How will wider flood mitigation measures be taken into account?
11. How will insurers address changes to the approach to flood risk management in future, where the level of protection put in place may not be for a 1 in a 100 year event (the current standard that tends to be used in Scotland) or a 1 in 75 (the standard used generally in England) but a variety of protection levels in different places?
12. What (if anything) would make a property uninsurable at any cost?

Questionnaire for representatives of SCOTS representing local authorities

1. Are you aware that the Statement of Principles between the Scottish Government and the Association of British Insurer (ABI) will expire after 1st July 2013?



2. What might be the likely impacts in your area if no specific provision for the most vulnerable is put in place after July 2013?
3. Have you, or are you developing, any flood risk management strategies to address potential changes in the availability or affordability of flood insurance in your area after July 2013?
4. What assistance, if any, do you provide for the purchase and/or installation of flood resilience products for properties which have a high risk of flooding?

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