



## **Aviva response to the European Commission's Green Paper on the insurance of natural and man-made disasters**

Aviva provides 34 million customers with insurance, savings and investment products. We are one of the UK's largest insurers and one of Europe's leading providers of life and general insurance. We provide general insurance for individuals and business in France, Italy, Ireland, Poland and the UK.

Aviva welcomes the European Commission's Green Paper and its exploration of ideas on the availability of insurance to support people and businesses in the event of disasters. We have restricted our comments to those questions where we have some expertise and where our input might be most relevant. This has led us to focus predominantly on flooding throughout our response.

Fundamentally, a long-term strategy on flood risk management needs to be addressed by governments, citizens and insurance industry: the first protecting citizens and their homes wherever possible so that the impact of flooding is minimised; citizens by being aware of local risks, warning systems and resistance and resilience measures they can undertake; and industry by making sure the right protection and service is available at what is unavoidably a distressing time for those affected.

The priority for member states must be to reduce the impact of disasters, such as flooding, in the first place. Government and industry need to work together to ensure that flood insurance remains affordable and available.

### **Member State and EU action**

Whilst primarily an area of Member State competency, the Commission might play a role in:

- sharing best practise on flood mitigation measures, risk management programmes or flood mapping techniques;
- helping Member States co-operate to assess climate change and assess the increasing propensity for flooding;
- highlighting the need for Member States to develop long-term strategies that include:
  - Significant flood defence investment;
  - Investment in flood defence maintenance;
  - Better data on defence effectiveness provided in a more timely way so that flood defences can be taken into account when assessing risk;
  - House purchase processes that make householders aware of potential flood risk;
  - Rigorous local planning systems aligned to flood risk management strategies;
  - A coherent strategy for surface water flooding.

### **Aviva action**

Aviva's focus is on looking after our customers when flooding does happen. It might help the debate to consider how insurers on the ground currently deal with these difficult situations for our customers, taking some real life examples:

In the UK, Aviva's Property Claims Centre of Excellence is open 24 hours a day every day of the year, and we use flexible working patterns to maximise resource when demand is highest. Our own in-house services and extensive supply chain mean that we have hundreds of people on the ground



visiting customers as soon as possible. Any part of the claim that can be settled immediately is done with cash payments (for damaged items) or direct replacements. In the floods earlier this year many of our customers received cash payments within minutes of them making a claim, or they had replacement goods on order in the same timescales.

In France, Aviva acted quickly to alleviate the suffering of families following the flooding which occurred when storm Xynthia hit France's western seaboard in 2010. Even before a state of emergency could be declared, Aviva Assurances, through its network of 900 general agents in France, and Eurofil, which specialises in direct insurance by phone, extended the normal claim deadlines by five or 10 days. We accepted claims in any format, made advance payments, giving special priority to those most in need as a result of the flooding, and focused on re-housing. We also took into account the circumstances of affected customers if they were temporarily unable to pay insurance premiums on time.

Insurance does not stop flooding, of course, but our pro-active approach to helping customers when they need us shows the benefit of adequate protection for families, businesses and society.

#### **Dialogue with the industry**

We have a good deal of expertise in flooding in different member states and would be happy to discuss our experience further. Please get in touch if you would find it helpful for us to explain our views and activities in more detail.

*Aviva is committed to transparency.  
Our EU transparency register number is 86270761494-62*

**1. What is your view on the penetration rate of disaster insurance in the European Union? Please provide details and data to support your arguments. Is more research needed to understand any possible gaps in insurance supply and demand, insurance availability and coverage?**

We believe that, overall, insurance markets in Europe function well and that in general consumers can access the insurance they need. Of course, the mix of products being insured, or the risks they are being insured against, will differ in individual member states.

In the UK the penetration of flooding insurance is high, primarily because flooding is a risk that is covered in property insurance, and this insurance is required by mortgage lenders.

Over 5 million homes in England and Wales, or one in every six homes, are at risk of flooding, and the frequency and severity of flood events is rising. Insurers have paid approximately £5 billion in claims to households and businesses affected by flooding since 2000. Approximately 75% of UK households hold contents insurance whilst 60% have buildings insurance.<sup>1</sup> We support efforts to educate consumers about the value of household insurance to protect their property and possessions.

The rising risk from surface water flooding poses a particular problem as householders and businesses may be less aware that they are at potential risk and may therefore not have an appropriate level of protection.

The insurance industry has a strong interest in effective risk management, and works to encourage policies and actions that manage flood risk to people and property

**2. What further action could be envisaged in this area? Would mandatory product bundling be an appropriate way to increase insurance cover against disaster risks? Are there any less restrictive ways, other than mandatory product bundling, which could constitute an appropriate way to increase insurance coverage against disaster risks?**

Insurers insure objects or people from risks. Household insurance covers a number of risks, such as flooding and fire. Insurance therefore ‘bundles’ various risks as a matter of course.

We strongly believe that it should be for Member States to decide whether and how it should be mandatory for certain risks to be included in insurance policies. This is because mandating certain risks generally means that one group of people subsidises another e.g. mandating flood cover means that those who are not at risk of flooding effectively subsidise those who are by paying higher premiums than they otherwise would. The UK’s proposed Flood Re model (see response to Q4 below) formalises the current cross subsidy that exists in the insurance household market today. Overall, this is an issue of societal fairness and it is for individual Member States to decide what arrangements are fair given their particular culture and circumstances.

The best societal outcome would be if fewer households were affected by flooding in the first place, and this is where Governments should take the lead. Governments can reduce the likelihood of an event occurring through flood alleviation schemes. These could take the form of conventional “hard” engineering solutions, such as river walls and embankments, or “soft” solutions, such as the use of agricultural or marginal land for occasional flood storage. Both of these forms of risk reduction

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<sup>1</sup> UK Insurance Key Facts September 2012, ABI

would lead to lower overall prices and therefore more accessible insurance. Damage to property is increasingly caused by surface water as well as the more traditional sea and river flooding, and Member States should have strategies to deal with all these risks.

#### **4. How can state or state-mandated disaster (re-)insurance programmes be designed and financed to prevent the problem of moral hazard**

Re-insurance has an important role to play in the insurance market. It allows insurers to reduce the risks of underwriting policies by transferring part of it to a re-insurer. The value of re-insurance could be seen following this summer's flooding in central Europe. According to industry analysts the floods are expected to cause about €2.75bn in insured losses, with roughly €1.3bn of this borne by re-insurance companies.<sup>2</sup> So, re-insurance provides stability and diversity to the financial system and helps insurers get families and businesses back on their feet quickly.

It is the responsibility of individual member states to work closely with their insurance industries to develop a solution that works best for their individual market. In the UK, the insurance industry and the Government agreed a 'Statement of Principles' where members of the Association of British Insurers (ABI) will renew flood insurance to existing customers, providing the flood risk is adequately managed or government has announced plans to reduce their flood risk within five years. This agreement was set up in 2000 and expired in 2013. However, the industry has volunteered to honour the Statement of Principles until the new solution (outlined below) is in place.

In June 2013 the ABI and the Government agreed a Memorandum of Understanding on how to develop a not-for-profit scheme - Flood Re - that would ensure flood insurance remains widely affordable and available. The framework is an agreement in principle but not binding. Its unique elements are:

- Flood Re will be run and financed by insurers as a not-for-profit fund which will cover the cost of flood claims from high risk homes.
- Insurers will pass the flood risk premium element from those households deemed at high risk of flooding to the fund. Premiums for the flood risk will be calculated based on council tax banding (value of the property) up to a maximum limit depending on the band.
- Flood Re would charge member firms an annual charge of £180 million. This will be funded by a levy of £10.50 on annual household premiums and equates to the estimated level of cross-subsidy that already exists between lower and higher flood risk premiums.
- Flood Re will be designed to fully deal with at least 99.5% of years. Even in the worst half a per cent of years, Flood Re will cover losses up to those expected in a 1 in 200 year – a year six times worse than 2007 in the UK – with Government taking responsibility to work with the industry and Flood Re – to distribute any available resources to Flood Re policyholders should claims exceed that level.

This agreement helps demonstrate that flooding is a complex societal problem. Governments need to work with insurers to find an agreement that is fair and works for taxpayers, consumers and the industry. So, the extent and type of state mandated or provided (re-) insurance programmes should be decided by Member States. We are not aware of evidence of a material market failure that would necessitate state mandated disaster (re-)insurance programmes.

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<sup>2</sup> <http://www.globalreinsurance.com/kbw-euro-floods-to-cost-reinsurers-13bn/1403032.article>

**6. Could risk-based pricing motivate consumers and insurers to take risk reduction and management measures? Would the impact of risk-based pricing be different if disaster insurance was mandatory? Do insurers in general adequately adjust premiums following the implementation of risk prevention measures**

Risk based pricing can motivate consumers and insurers to take risk reduction measures. Risk based pricing is economically efficient and incentivises individuals to take action to reduce their risk. If a property is in a high flood risk area or has previously been damaged by flooding, we are happy to adjust the premium or excess if any flood resistant or resilient measures are taken by the homeowner if these measures alter the risk.

We offer our customers who have flooded, cost-neutral resilient repairs which can include:

- Raising electrical power points
- Replacing wooden flooring with concrete and carpets with tiled flooring
- Using water-resistant plaster
- Replacing chipboard or timber carcass kitchen base units with units made out of plastic or a similar (e.g. stainless steel) impervious material
- Replacing wooden skirting boards with tiles
- Replacing timber doors, door frames and architraves with plastic units.

There are however challenges to this approach, as some of these measures are not popular (especially the last one) as it is generally believed to have a negative effect on the appearance of the home. We also find that customers are opposed to having their electric points put half way up the wall as they feel it highlights the reality that they have flooded. Equally many do not believe they will be flooded again and are therefore disinclined to proceed with these changes. It is difficult to see this dynamic changing in the UK.

Anything that can be done to reduce the time households are living in temporary accommodation following a flood is welcome, but unfortunately most of the examples that we see represent only a minor reduction in risk as fully effective protection is usually expensive (disproportionately so to the margins in home insurance, a very competitive market) and requires the services of a specialist flood prevention company.

**8. What other solutions could be offered to low-income consumers who might otherwise be excluded from disaster insurance products?**

Insurers are already able to offer low cost contents and household insurance in the right circumstances. For instance, in the UK Aviva offers low cost contents insurance to local authority and housing associations tenants. The premiums are affordable, use a simple rating structure and there is no excess. The take up by tenants of schemes is typically around 12% but we have a number of schemes where the take up is 20-30%. This occurs when the local authority help to raise awareness of the scheme.

Aviva's tenants contents insurance includes cover for:

- Fire, explosion, lightning or earthquake
- Storm and flood
- Falling trees or branches

- Subsidence, heave or landslide

Keeping insurance affordable is important as home contents insurance is the most needed and least accessed type of insurance amongst low income households. People in the lowest income households are eight times more likely to be living in tidal floodplains than people in more affluent households.<sup>3</sup> Better financial education and promotion of these schemes is vital to their continued growth and success. Better planning rules would stop the building of all homes, regardless of income group, in areas of high risk.

**10. Do you think there is a need to harmonise pre-contractual and contractual information requirements at EU level? If so, should the approach be full or minimum harmonisation?**

We are content with the current approach of GI disclosure rules being set by national regulators. In the UK the Financial Conduct Authority sets rules relating to suitability of advice and provision of appropriate information to ensure a customer can make an informed decision. Information is provided on the main benefits and exclusions of policies.

We are not aware of evidence that suggests it would be necessary to harmonise pre-contractual and contractual information. Customers need to receive an appropriate level of information and, in our experience, more is not necessarily better.

**13. How could the mapping of current and projected/future disaster risks be improved (e.g., through current EU approaches in flood risk mapping under the Floods Directive 2007/60/EC, 29 civil protection cooperation and promotion of EU risk guidelines)?**

This is an area where member states require Government or an independent agency to provide a strong strategic lead and to co-operate with other member states as appropriate. There could be benefits in sharing best practise on flood mitigation measures, risk management programmes or flood mapping techniques.

National authorities responsible for mapping disaster risks should continue to invest in the latest technology. Ideally, the authorities should consult with stakeholders (such as insurers) who use the maps to help ensure that they are fit for purpose.

One issue where national authorities need to take greater account of is surface water. Increased urbanisation, and the loss of green spaces within towns and cities, means that the risk of damage caused by surface water is increasing. Surface water flooding is becoming more prevalent and happens when the local drainage system cannot cope with the rainfall. It is extremely difficult to predict precisely where surface water flooding will happen as it is dependent on ground levels, rainfall, and the local drainage network e.g. concreting over a drive ways with no soak away area.

Member states can also co-operate to assess climate change and assess changes in the propensity for flooding. Met Office statistics make it clear that the UK's propensity to flood is getting worse and that investment in long-term flood management is imperative. Without adequate mitigation, those heightened risks may lead not only to more homes and businesses suffering flooding but to insurance premiums increasing to the point of becoming unaffordable.

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<sup>3</sup> Addressing Environment Inequalities, Environment Agency, October 2004