

*Joint Committee on Finance, Public Expenditure  
and Reform*

**Correspondence Item No: 2015/1378(c)**

25<sup>th</sup> June 2015



Mr Brian Brogan,  
Principal Officer,  
Engineering Services,  
Office of Public Works,  
52 St Stephen's Green,  
Dublin 2.

Dear Brian,

**MOU between Insurance Ireland and the OPW**

I refer to your letter of 20th April and our discussions.

First of all, Insurance Ireland strongly support the MOU. Insurers are major stakeholders in mitigating the economic effects of natural catastrophes. The insurance industry wants to continue to offer affordable insurance to as many people as possible. Minimising the financial impact of the cost of floods on property owners is critical to the sustainable provision of insurance. Adequate levels of investment in and speedy implementation of flood defence schemes is vital. Insurers need to be part of the solution and also need to be aware of flood defence measures which the State have taken and will take to implement flood defence schemes.

The information provided by the OPW to Insurance Ireland on 16 flood defence schemes completed in the past is very welcome. Insurers have to varying degrees been involved in flood risk assessment for a number of years. Their awareness of problem areas has increased and it is very important that we are able to communicate data on flood defence schemes to them so that they can factor this information into their underwriting decisions.

Information provided by the OPW on past schemes is just one element of Insurance Ireland's engagement with the OPW. This information is looking back at schemes which have previously been completed. Equally important is to look forward to flood defence schemes planned for the future especially now that the OPW are at the stage in the CFRAM programme of drawing up flood risk management plans for at risk areas in compliance with the EU Floods Directive. We understand that 8 schemes are currently in construction and 23 schemes are in design/planning. We are particularly interested in the prioritisation of forthcoming flood defence schemes (i.e. which will be progressed/built first).

As a representative association, there are certain parameters within which Insurance Ireland has to operate. Insurers operate in a regulated industry and prepare their underwriting strategies in an effort to generate returns for their shareholders. Insurers compete with each other in doing this. Some have a conservative risk appetite, others less so. Whatever their risk appetite, insurers are free to make their own decisions on whether to offer cover and on what terms to apply. Insurance Ireland cannot dictate to insurers in these matters for competition law reasons. This reality is acknowledged in the MOU at paragraph 1.3, as follows:

"This MOU does not represent a market or Government/insurer agreement on the provision of flood cover."

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At paragraph 6.3 of the MOU it is further acknowledged that:

“The provision of cover and level of premiums charged and policy terms applied are a matter for individual insurers”.

Turning now to your individual headings, we will take them in order:

### **General Data**

It is true to say that I have estimated that 98% of household insurance policies have flood cover as standard in their policies. This figure is an estimate of what we believe the situation to be. We do not have an equivalent figure for business policies (the MOU relates to small businesses only). We do not have any statistics on the number of households and businesses located in flood risk areas and how many have loadings or conditions attracting to their policies.

### **Insurance Ireland Survey**

It takes approximately 8 – 9 months for data to be incorporated into members' systems and the benefits will then be seen on a rolling basis during the following 12 month renewal cycle.

Our survey in January was based on a survey of our members of the situation in the flood benefit areas covered by the 12 schemes on which the OPW had provided information at that time and we supplied the results in our January update.

### **Specific Details**

Our survey in January showed that 91% of policies in areas benefiting from fixed flood defences had flood cover while 66% of policies in areas benefiting from demountable flood defences had flood cover. The 16 schemes on which we now have data were completed at various times over the past 20 years (e.g. Duleek in 1998, Hazelhatch in 2000, Dunmanway in 2001, Kilkenny in 2006) – in other words well in advance of the MOU coming into being. The majority of the people in these areas would have had flood cover before the MOU came into being on 1<sup>st</sup> June 2014 and insurers should get credit for that. Analysing whether people had flood cover before or after the MOU came into effect on 1<sup>st</sup> June 2014 might be of some relevance if the defences had been built around that time. The real question is how many policies in those areas have flood cover now. What our January survey told us was that, had it not been for the flood defences in the areas in question, fewer people would have had flood cover as time went on. The fact that so many people now have flood cover in these areas is testament to State investment in flood defences in these areas. The more widely the OPW's efforts are known by insurers the better.

### **Permanent Defence Schemes**

91% of policies in areas benefiting from fixed flood defences included flood cover in our January survey. There could be a number of reasons why 9% of policies did not, including one or more of the following e.g.

- Poor flood claims experience (e.g. pluvial flooding);
- Difficulties in obtaining reinsurance;
- The need for insurers to ensure that their portfolio of risks is well spread so as not to be overexposed in a particular area;
- Unoccupancy.

## **Demountable Defence Schemes**

It has always insisted that the fixed defence approach is essential when building flood defences. It is important that permanent, fixed flood defences are built rather than flood defences which rely on human intervention such as demountables and floodgates. The problem with demountables and floodgates is that human intervention is required to deploy them. If they are not deployed correctly or in time demountables and floodgates will fail. The impact of major floods is potentially very high as evidenced by the major floods we have seen in recent years. Insurers cannot gamble that demountables and floodgates will be deployed correctly and in time. Demountables and floodgates do not meet the required flood defence standard of 1: 100 years as at 1 January 2012. We encourage Government to place the emphasis on fixed defence solutions built to the 1: 100 year standard in future as this delivers the best solution to policyholders and the insurance sector.

The demountable issue should be borne in mind in the context of the Cork City Flood Relief Scheme. Permanent, fixed flood defences built to a standard of 1:100 years as at 1 January 2012 are the minimum that should be implemented if insurance is to be a viable proposition in the areas to be defended.

## **Four Schemes – January 2015 Data**

We are endeavouring to establish the degree of flood coverage in these areas. Insurers will take this flood defence information into account when it is integrated into their systems, which should be by the end of the third quarter.

Finally, we are updating our overall survey at present, which will focus on the availability of flood cover rather than loadings, excesses etc., and will supply the results to you in due course.

We look forward to continuing our engagement with the OPW and building on this MOU in the future.

Yours sincerely,



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