

**Insurance Ireland – Opening Statement to – Joint Committee of Finance, Public Expenditure and Reform and Taoiseach**

**Introduction**

Mr. Chairman and members of the Joint Committee on Finance, Public Expenditure and Reform and Taoiseach, on behalf of Insurance Ireland I would like to thank you for the opportunity to contribute to your assessment of the Flood Insurance Bill 2016.

As the representative body for the Insurance Industry, our members underwrite the vast majority of flood insurance premiums in Ireland. Our members also have extensive experience of flood defence policies internationally and their interaction with insurance cover.

I would like to keep my remarks brief and cover the policy context of the Current Government Flood Policy before addressing the The Flood Insurance Bill 2016 directly. I will also provide members of the Committee with a brief overview of how Insurance Ireland responded to Hurricane Ophelia.

We are then available to discuss these issues with the members present here today.

**Recent Severe Weather Events**

Insurance Ireland members, along with most other businesses nationwide, closed offices on Monday 16<sup>th</sup> October for employee safety reasons. Claims management teams deployed their individual weather catastrophe plans. This included: walking through first response procedures; refreshing claims handlers on those procedures; deploying telephony surge protocols; and activating eFNOL to enable claims personnel and customers (self-service) complete initial registration on-line. Staffing levels within the FNOL (First notification of Loss) teams were closely monitored over the following days.

Insurers therefore undertook a number of measure to ensure policyholders and claimants were dealt with in a timely and effective manner and are now focussed on the resolution and timely payment of claims. It is worth noting that the majority of Ophelia related claims are low value where private dwellings were not rendered uninhabitable and therefore the need for interim payments did not generally arise. As expected, the majority of losses occurred in the south, with the following geographic spread observed to date:

County	% Claimants
Cork	30%
Tipperary	10%
Wexford	7%
Waterford, Limerick, Kilkenny	5-6%

## **Policy Context and Key trends**

Firstly, Insurance Ireland is committed to working with Government, the OPW and other agencies of the state to support the policy of a sustainable, planned and risk-based approach to mitigating flooding. Insurers play an important role in working with the Government and its agencies to help meet the needs of those who require flood insurance.

Insurers want to underwrite risk and they want to broaden coverage and that has been borne out in recent years with 98% of home policies in Ireland having flood insurance.

In 2014, Insurance Ireland signed a memorandum of understanding (MOU) with the Office of Public Works. At its core this MOU creates a system whereby the OPW shares information on the defences they have completed, and Insurance Ireland members take this information into account when underwriting these risks and seek to increase cover in these protected areas. Insurers work to a fixed 1 in 100 year standard of flood defence and where defences have been completed to this standard, what are known as defended areas, coverage rates for flood insurance are increasing.

We would like to be clear in relation to how we arrive at our figures. The only reliable measure we can collect data on is the percentage of policies that have flood cover – this is the only reliable baseline data. There are a lot of properties which for any number of reasons are not insured and as such, they would greatly skew the coverage rates. We believe the policy is working and although it is gradual, progress is being made in a sustainable manner for both communities and insurers.

## **Demountable Defences**

A key feature of the discussion on flood defences has been around the issue of demountable defences or schemes which have demountable elements. From an insurance perspective, the human intervention required to put in place flood defences is a key variable and one which is difficult to resolve. We accept that at this early stage in their cycle, the OPW demountable defences appear to be performing well. However, there are a number of examples of demountable failures in the UK in recent years, for example,

- 2007 – Upton on Severn – the demountable defence was not deployed in time due to severe disruption to the transport infrastructure caused by flooding.
- 2012 – Kempsey, Hereford – a faulty sensor caused the failure of a demountable defence. The sensor had become waterlogged due to heavy rainfall. Two pumps designed to start automatically then failed.
- 2015 – York – the Foss barrier failed after its pumping station flooded.
- 2015 – Llanrwst, Wales – a temporary steel defence was not erected in time.

We have been working with the OPW and Government to get to a place where progress can be made on the demountable issue. I am pleased to be able to update the Committee that our discussions are making progress. Insurance Ireland informed the OPW and the Department of Finance that following detailed negotiations our members agreed that once they are erected in a timely fashion and correctly installed, demountable defences offer the same protection and risk as fixed defences. The missing part of the puzzle is the human intervention to erect the defences.

We are beginning to look at strategies to address the issue of human intervention. This is detailed work and needs to be progressed in a prudent manner in order to ensure insurance companies are not taking on excessive risk that would undermine their solvency, this in turn is to ensure that they have sufficient reserves to meet the needs of their future claimants.

### **The Flood Insurance Bill 2016**

Given the policy context, and the current issues being worked through, it is our considered opinion that the proposed legislation will not achieve its stated aims of building coverage in defended areas. We recognise the concern that exists in parts of the country where flood cover is not yet available, however, when looked at in the national context and in the international context, we have a sustainable model for flood protection that is linked to an appropriate national policy. The Interdepartmental Flood Policy Group said last year that the current focus on prioritizing flood defenses in areas at risk and working with insurers through the OPW is the best approach.

The MOU is working, and it is our firm belief that it will continue to work into the future.

Finally, there has been a lot of discussion about a national scheme similar to Flood RE in the UK. We would also caution against such an approach. Flood RE themselves estimate that the average cost of repairing an impacted dwelling of between £20,000 and £45,000. In the UK Flood RE only applies to residential properties built before 2009. Also in the UK Flood RE covers approximately 2% of policies. It is our belief that the Department of Finance estimate that a Flood RE system would result in between 9% to 16% levy on every household policy every year is on the light side. It could easily be envisaged that such a levy could rise above 16%.

Again, I would like to thank the Committee for the opportunity to appear before them today and we look forward to discussing the proposed legislation with members.