



# **TITHE AN OIREACHTAIS**

## **AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ**

**Tuarascáil maidir le héisteachtaí i ndáil le hárachas a  
sholáthar i limistéir atá i mbaol tuilte**

**Bealtaine 2015**

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# **HOUSES OF THE OIREACHTAS**

## **JOINT COMMITTEE ON FINANCE PUBLIC EXPENDITURE AND REFORM**

**Report on hearings in relation to the provision of  
insurance in areas at risk of flooding**

**May 2015**

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## CHAIRMAN'S PREFACE

Flooding is an increasingly regular feature of Irish weather conditions and the damage done to businesses and communities affected has been significant. The estimated cost of flooding in the last 15 years is in the region of €700 million. It has become clear that certain areas across the country are prone to flooding and have borne the brunt of the damage. Many homeowners and businesses in these areas now find themselves in a position where they cannot get flood insurance cover. The resulting uncertainty is unacceptable, especially in light of the significant State investment, through the Office of Public Works (OPW), in flood defence schemes across the country.

Although this is a nationwide problem, the Joint Committee chose to examine the issue through the example of the situation in Cork city. The city of Cork is prone to flooding and has recently experienced two catastrophic flood events; in 2009 and 2014. This has left many businesses in the vulnerable situation of having no flood insurance cover. The OPW has outlined a planned flood defence system for Cork, which is to be completed by 2020. This has not, however, improved the situation for those without flood insurance. There is also no guarantee that the situation will improve when the flood works are completed in 2020. The situation in Cork is replicated in a number of other areas throughout the country.

The Joint Committee considered this issue of flooding insurance during hearings on 15 April 2015. The Committee met with the following witnesses:

- Mr. Lawrence Owens, Chief Executive Officer, Cork Business Association
- Dr. Swenja Surminski, expert on insurance and climate issues from the London School of Economics and Political Science
- Mr. Tony Smyth, Director of Engineering Services, the Office of Public Works
- Mr. Brian Brogan, the Office of Public Works

- Mr. Kevin Thompson, Chief Executive Officer, Insurance Ireland
- Mr. Michael Horan, Insurance Ireland

I would like to express my appreciation to all the witnesses for their contributions, to the Committee Secretariat for their administrative support, and to the members of the Committee for their work on this subject. I hope that this report will be considered by the relevant authorities and the Insurance Industry.



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Liam Twomey T.D.

Chairman

May 2015



## SECTION 1 - JOINT COMMITTEE HEARINGS

During the course of its meetings, the Joint Committee heard that:

1. There has been a significant investment of taxpayers' money in flood relief schemes throughout Ireland. The OPW has completed flood defence works in areas such as Clonmel, Fermoy, Waterford and other locations. These flood defences have, so far, proven to be effective. The OPW will begin work on the flood relief scheme for Cork in 2016 or 2017, with an estimated cost of €50 million to €60 million and a projected completion date of 2020.
2. In spite of the capital investment in flood relief schemes, there is anecdotal evidence that householders and businesses in areas where the work has been carried out have not benefitted in terms of being able to get flood insurance cover. The expectation of realistic flood insurance cover, following the completion of an OPW flood relief scheme, has not been realised.
3. The March 2014 Memorandum of Understanding between the OPW and the representative body of the insurance industry, Insurance Ireland, which allows for the exchange of flood defence data, is a step forward and is welcome. However, it has not changed the situation for those who cannot currently get flood insurance. It has not led to any commitment to provide insurance cover.
4. The work of the OPW is to the highest standard and they are involved in creating a 1:100 year<sup>1</sup> flood defence system. Significant amounts of money have been, and continue to be, invested in flood defence schemes. Through the Memorandum of Understanding, the

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'A 1% chance of a flood in any year.' Tony Smyth, p. 29.

1:100 year flood is a statistical description meaning that in any year there is a 1% chance that an area at risk of flooding will flood.

OPW also provides information to Insurance Ireland regarding its flood relief schemes. However, the evidence indicates that the Insurance Industry does not believe that the flood defences have reduced the risk of flooding sufficiently. As a result the difficulties for homeowners and businesses in acquiring flood insurance remain.

5. The OPW has a very specific role in the exchange of information with the insurance industry on flood risk, flood defences and levels of insurance cover. The OPW has no responsibility for oversight or regulation of the Insurance Industry. At the core of the OPW's work in relation to flooding is the objective of reducing to the greatest extent possible the level of flood risk to people, property, infrastructure and the environment.
6. The Government has agreed that the strategy of the OPW investing in flood defence schemes in areas worst affected by flooding presents the most effective solution to the difficulties people face from flood risk, including obtaining insurance cover. Provision of any insurance is currently a matter for individual insurers. However, the Memorandum of Understanding notes the requirement that, when assessing exposure to flood risk, insurers take full account of information provided by the OPW on completed flood defence schemes.
7. The issues surrounding the provision of flood insurance are not unique to Ireland. It is a multidimensional issue and the international evidence suggests that there is 'no silver bullet' for arranging adequate flood insurance. However, when seeking to design an insurance system that is fit for the future, there are key principles which should be borne in mind. These include commercial viability, affordability, availability, and financial soundness.
8. The availability of insurance relates to the question of how much the State is expected to intervene. Within the EU, Ireland and the

UK are exceptions in terms of having a purely private based insurance system. The State is involved to a greater extent in most other European countries by either providing insurance companies with re-insurance or funding a state-owned insurance entity.

9. There have been 14 major weather events in Ireland since 2000 with the claims from these events costing €1.445 billion. Of these 14 major weather events, 8 were floods. The total cost of the flood events was €697 million. According to Insurance Ireland, the average spend on flood risk management over the same period was €28 million per annum. Insurance Ireland believes that this is inadequate and that increased investment in flood defences is vital. Insurance Ireland indicated that flood insurance would be more widely available in areas benefitting from flood defences built to the desired standard of 1:100 year.
10. Insurance Ireland highlighted that flood insurance coverage for households stands at approximately 98% and is widely available for businesses. Some people are asked to pay a higher premium or have a higher flood excess because the flood risk is higher. Exclusion of cover is a last resort. The increased frequency of flooding in recent years means that flooding in certain areas is no longer considered a risk but a certainty. However, insurance offers protection against risk not certainty.

## SECTION 2 – JOINT COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

The Joint Committee has made a number of observations in relation to this topic and initial recommendations which would help to move the situation forward.

1. Many businesses in Cork remain without any flood insurance and would not have the financial capacity to survive another flood similar to those experienced in 2009 and 2014. This leaves these businesses in a very precarious position and also acts as a barrier to new retailers and international investment coming to Cork.
2. The State is investing large amounts of money and resources, through the OPW, in flood defence works. In Cork alone the estimated final cost of works is between €50 million and €60 million. The OPW is an organisation with a significant track record in terms of this work. However, improvements are not being acknowledged through increased insurance provision by the Insurance Industry in areas where the work has been carried out. When the works are complete in 2020, businesses currently without access to flood insurance may still find themselves in the same position.
3. The Memorandum of Understanding between the OPW and Insurance Ireland requires that the OPW supply information to the Insurance Industry. However, there is no obligation on Insurance Ireland to feed back to the OPW with regard to the impact on those in need of insurance. It is important that this exchange of information goes in both directions. The public needs to know that these defence works, once completed, are having an impact on the premiums and the insurance products being offered to customers.
4. Specifically in relation to Cork, it is unacceptable that businesses and residents continue to be exposed to massive risk and that this situation may continue to 2020 and beyond. The logical first step in flooding prone areas would be for the Insurance Industry, business



representatives, the OPW, local council and all stakeholders to conduct a series of meetings and discuss the problem frankly and openly. If approached in a spirit of cooperation it should be possible to agree on the level of flood risk and on future plans in terms of flood defence work. Clarity needs to be brought to what insurers would deem acceptable in terms of flood risk.

5. Under the climate change agenda, one of the measures suggested is retrofitting houses with insulation to improve their energy efficiency. In response to rising sea levels and the increased likelihood of flood risk, there is a case for areas that are subject to recurrent flooding to have a programme of retrofitting premises with optimum level of flood defence mechanisms available. The Insurance Industry should set out what is expected of a business or community in terms of flood prevention and retrofitting. When the business or community reaches this standard, the availability of adequate, affordable flood insurance should be guaranteed.
6. Insurance Ireland should consider the Declined Cases Agreement<sup>2</sup> it operates for young drivers' motor insurance. Under this agreement, the insurance market will not refuse insurance, if at least three insurers have been approached and have refused to provide cover. The Agreement is administered by a Committee made up by the insurance companies and representatives of the Consumers' Association of Ireland. In general, the insurer first approached will be required to provide a quote but if this is not possible, a rota of insurers comes into effect. This may be applicable to the problem of flood insurance and would have the effect of spreading the risk amongst all the insurance companies.
7. The State must recognise that it has some responsibility for insurance. The various models already in place in other countries should be examined by the proper authorities to see what can be

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<sup>2</sup> <http://www.insuranceireland.eu/consumer-information/general-non-life-insurance/motor>

learned. In Spain, France and some of the Scandinavian countries, the State intervenes by providing natural catastrophe insurance. In other countries no customer can be refused access to flood insurance. These models can provide the State with examples of how it can intervene to ensure all citizens have access to flood insurance. However, it must be noted that there is no perfect solution to this issue.

8. If, after examining the various models, no adequate solution can be reached, the State should consider the merits of introducing legislation that would compel insurance providers to provide flood insurance cover to everyone.

## APPENDIX 1

### JOINT COMMITTEES TERMS OF REFERENCE

#### **a. Functions of the Committee – derived from Standing Orders [DSO 82A; SSO 70A]**

- (1) The Select Committee shall consider and report to the Dáil on—
  - (a) such aspects of the expenditure, administration and policy of the relevant Government Department or Departments and associated public bodies as the Committee may select, and
  - (b) European Union matters within the remit of the relevant Department or Departments.
- (2). The Select Committee may be joined with a Select Committee appointed by Seanad Éireann to form a Joint Committee for the purposes of the functions set out below, other than at paragraph (3), and to report thereon to both Houses of the Oireachtas.
- (3). Without prejudice to the generality of paragraph (1), the Select Committee shall consider, in respect of the relevant Department or Departments, such-
  - (a) Bills,
  - (b) Proposals contained in any motion, including any motion within the meaning of Standing Order 164,
  - (c) Estimates for Public Services, and
  - (d) Other matters

as shall be referred to the Select Committee by the Dáil, and

- (e) Annual Output Statements, and
  - (f) Such Value for Money and Policy Reviews as the Select Committee may select.
- (4) The Joint Committee may consider the following matters in respect of the relevant Department or Departments and associated public bodies, and report thereon to both Houses of the Oireachtas:
  - (a) matters of policy for which the Minister is officially responsible,

- (b) public affairs administered by the Department,
  - (c) policy issues arising from Value for Money and Policy Reviews conducted or commissioned by the Department,
  - (d) Government policy in respect of bodies under the aegis of the Department,
  - (e) policy issues concerning bodies which are partly or wholly funded by the State or which are established or appointed by a member of the Government or the Oireachtas,
  - (f) the general scheme or draft heads of any Bill published by the Minister,
  - (g) statutory instruments, including those laid or laid in draft before either House or both Houses and those made under the European Communities Acts 1972 to 2009,
  - (h) strategy statements laid before either or both Houses of the Oireachtas pursuant to the Public Service Management Act 1997,
  - (i) annual reports or annual reports and accounts, required by law, and laid before either or both Houses of the Oireachtas, of the Department or bodies referred to in paragraph (4)(d) and (e) and the overall operational results, statements of strategy and corporate plans of such bodies, and
  - (j) such other matters as may be referred to it by the Dáil and/or Seanad from time to time.
- (5) Without prejudice to the generality of paragraph (1), the Joint Committee shall consider, in respect of the relevant Department or Departments—
- (a) EU draft legislative acts standing referred to the Select Committee under Standing Order 105, including the compliance of such acts with the principle of subsidiarity,
  - (b) other proposals for EU legislation and related policy issues, including programmes and guidelines prepared by the European Commission as a basis of possible legislative action,
  - (c) non-legislative documents published by any EU institution in relation to EU policy matters, and
  - (d) matters listed for consideration on the agenda for meetings of the relevant EU Council of Ministers and the outcome of such meetings.

- (6) A sub-Committee stands established in respect of each Department within the remit of the Select Committee to consider the matters outlined in paragraph (3), and the following arrangements apply to such sub-Committees:
- (a) the matters outlined in paragraph (3) which require referral to the Select Committee by the Dáil may be referred directly to such sub-Committees, and
  - (b) each such sub-Committee has the powers defined in Standing Order 83(1) and (2) and may report directly to the Dáil, including by way of Message under Standing Order 87.
- (7) The Chairman of the Joint Committee, who shall be a member of Dáil Éireann, shall also be the Chairman of the Select Committee and of any sub-Committee or Committees standing established in respect of the Select Committee.
- (8) The following may attend meetings of the Select or Joint Committee, for the purposes of the functions set out in paragraph (5) and may take part in proceedings without having a right to vote or to move motions and amendments:
- (a) Members of the European Parliament elected from constituencies in Ireland, including Northern Ireland,
  - (b) Members of the Irish delegation to the Parliamentary Assembly of the Council of Europe, and
  - (c) at the invitation of the Committee, other Members of the European Parliament.

**b. Scope and Context of Activities of Committees (as derived from Standing Orders [DSO 82; SSO 70])**

- (1) The Joint Committee may only consider such matters, engage in such activities, exercise such powers and discharge such functions as are specifically authorised under its orders of reference and under Standing Orders.
- (2) Such matters, activities, powers and functions shall be relevant to, and shall arise only in the context of, the preparation of a report to the Dáil and/or Seanad.
- (3) It shall be an instruction to all Select Committees to which Bills are referred that they shall ensure that not more than two Select Committees shall meet to consider a Bill on any given day, unless the Dáil, after due notice given by the Chairman of the Select Committee, waives this instruction on motion

made by the Taoiseach pursuant to Dáil Standing Order 26. The Chairmen of Select Committees shall have responsibility for compliance with this instruction.

- (4) The Joint Committee shall not consider any matter which is being considered, or of which notice has been given of a proposal to consider, by the Committee of Public Accounts pursuant to Dáil Standing Order 163 and/or the Comptroller and Auditor General (Amendment) Act 1993.
- (5) The Joint Committee shall refrain from inquiring into in public session or publishing confidential information regarding any matter if so requested, for stated reasons given in writing, by—
  - (a) a member of the Government or a Minister of State, or
  - (b) the principal office-holder of a body under the aegis of a Department or which is partly or wholly funded by the State or established or appointed by a member of the Government or by the Oireachtas:

Provided that the Chairman may appeal any such request made to the Ceann Comhairle / Cathaoirleach whose decision shall be final.

## APPENDIX 2

### JOINT COMMITTEE MEMBERS

<b>Deputies:</b>	Tom Barry (FG)
	Richard Boyd Barrett (PBP)
	Ciaran Cannon (FG)
	Ciara Conway (LAB)
	Michael Creed (FG)
	Pearse Doherty (SF)
	Regina Doherty (FG)
	Stephen S. Donnelly (IND)
	Timmy Dooley (FF)
	Alan Farrell (FG)
	Seán Fleming (FF)
	Ciarán Lynch (LAB)
	Mary Lou McDonald (SF)
	Michael McGrath (FF)
	Paul Murphy (SP)
	Kieran O'Donnell (FG)
	Pat Rabbitte (LAB)
	Arthur Spring (LAB)
	Peadar Toibín (SF)
	Liam Twomey (FG) (Chairman)
	Brian Walsh (FG)
 <b>Senators:</b>	
	Seán D. Barrett (IND)
	Marc MacSharry (FF)
	Paul Coughlan (FG)
	Michael D'Arcy (FG)
	Aideen Hayden (LAB) (Vice-Chair)
	Tom Sheahan (FG)

## APPENDIX 3

### LINK TO TRANSCRIPT OF HEARINGS

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## APPENDIX 4

### WITNESS LIST

Hearings in relation to the provision of insurance in areas at risk of flooding

### Meeting 15 April 2015

#### Session A

Name	Organisation
Mr. Lawrence Owens, Chief Executive	Cork Business Association
Dr. Swenja Surminski	London School of Economics (LSE)

#### Session B

Name	Organisation
Mr. Tony Smyth, Director of Engineering Services	Office of Public Works
Mr. Brian Brogan	Office of Public Works
Mr. Kevin Thompson, Chief Executive	Insurance Ireland
Mr. Michael Horan	Insurance Ireland