Morpeth Flood Action Group Insurance Survey

Results and Analysis

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Following the extensive flooding on 6th September 2008 in Morpeth, Northumberland, an initial survey by Morpeth Flood Action Group (MFAG) indicated that insurance premiums and excesses from most insurance companies had increased significantly for flooded properties in the year after the flood. In the absence of any independent publicly-available survey information in the UK in recent years on insurance increases for flood-affected households, a further more comprehensive survey was conducted by MFAG in November 2010 to gather reliable evidence on changes in insurance costs for households that experienced flooding in comparison to households that were not affected. This report presents the full results from this survey. Some key findings are highlighted here:

- The average increase in Building and Contents premiums between 2008 and 2010 for owner occupier households that were flooded was 71%, compared to 9% for non-flooded households within flood-risk postcode areas, and a small reduction for other households.

- The equivalent results for Contents-only premiums was 59% increase for flooded households, compared to 12% for non-flooded households, and a small reduction for other households.

- Many companies are requiring high excesses for flood risk insurance, with some in excess of £10,000.

- There is little evidence that insurance companies recognise the efforts of households that elect to reduce flood risk by installation of flood resistant products, through reduction in premiums or excesses.

- There is no consistency of approach across different insurance companies, except that all major companies imposed significant increases for flooded households.

- Almost all flooded households renewed their policies with the existing insurance company, compared with just 61% of non-flooded households, indicating that flooded households do not have consumer choice from the insurance industry.

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This document has been produced with the help of Trevor Walmsley, Morpeth Flood Action Group.
On the 5th and 6th of September 2008 Morpeth found itself at the centre of the most intensive rainfall in living memory. There was extensive flooding throughout the town centre, where over 950 properties, including dozens of businesses, were directly affected. It is estimated that a further 90 properties throughout the borough were seriously affected. Iconic buildings such as the Chantry and St George’s Church suffered considerable damage, as did landmark shops. The Riverside Leisure Centre, the town’s main library, the emergency ambulance station and the doctor’s surgery and health centre in Gashouse Lane were all inundated and had to close. The flood was a truly devastating event.

Over the 12 months following the September 2008 Flood the Morpeth Flood Action Group conducted a survey of flooded households, the purpose of which was to assess the impact of the Flood on the terms offered by insurance companies for the renewal of buildings and contents insurance policies.

Whilst some insurance companies renewed policies with relatively small increases in premiums and excesses compared to the year before the Flood, others imposed punitive terms on Morpeth residents. From the wide variations in the way different insurance companies reacted to the heightened risk of flooding in the town, it seems, in many cases, that they ignored (such factors as) the specific risk of individual properties flooding again, the amount of the claim submitted by individual householders as a result of the 2008 flood and specific flood protection measures that were subsequently adopted by individual householders.

The 2008/2009 survey showed that -

- 28% of policies were renewed with no increase or minimal increases in premiums and excesses
- 43% of policies were renewed at rates above those minimal increases and with increases in premiums and excesses that were less than 50% of previous rates
- 29% of policies were renewed with increases in premiums and excesses that were greater than 50% of previous rates.

MFAG took the view that the increases of more than 50% of previous rates were punitive.

In autumn 2010 it was agreed within MFAG that the earlier survey was not wide enough in its scope to establish exactly what was happening with insurance premiums and excesses in the town. Evidence was mounting that some property owners were having great problems with their insurance companies while others were experiencing little or no difficulty. The results that follow are of the November 2010 survey. A copy of the questionnaire can be downloaded from the Action Group website at www.morpethfloodaction.org.uk.

The following results are taken from the November 2010 Survey
Returns
(Fig.1)
On the weekend of 12th & 13th November approximately 1050 copies of the survey were distributed amongst most of the properties that were flooded in Morpeth in September 2008, as well as properties that were not flooded in adjoining streets, and properties in the control groups. Returns were collected the following weekend. Where there was no answer or the return was not yet complete, occupiers were, asked for a return by the following weekend – either handwritten or online. Of the 362 returns, 41 were completed on-line. 8 of the on-line responses were from areas of Morpeth with less risk of flooding than 1 in 200 years and had not received a copy of the survey through their doors. 2 returns were from flooded properties on the outskirts of Morpeth which had not received the survey through their doors. The proportion of returns from properties that were flooded as against from those that were not, reflected the mix in the areas in which the survey was distributed. The proportion of on-line returns to paper returns was similar, and these have been included in the results.

Total Returns 362 out of 1050 drop, 34.5%

- Flooded: 63%
- Not Flooded but others in the street were: 13%
- Not Flooded: 19%
- Not Useable or returned blank: 5%

The category “Not flooded but others in the street were” has been changed to “Not flooded but in a flood risk area”. This has been done to assist the statistical analysis. It means that some of the respondents in the “not flooded” category have been moved into this new one.

Conclusion: the internet returns are not artificially distorting the results with having a disproportionate number of householders having grievances about their premium rises and so can be included in the analysis without them unduly affecting accuracy of results.
Council Tax Band of householder returns  
*(Figs.2&3)*

Council Tax Band has been used as a rough guide to property size. It is reasonable to assume that a higher council tax band indicates a larger property and therefore a higher premium for buildings insurance cover. The charts show that there were considerably more properties in the E&F band and far fewer properties in the A&B band for properties that were not flooded than was the case for properties that were flooded.

**Figure 2**

**Council Tax Band of flooded households**

- A and B: 59%
- C and D: 35%
- E and F: 6%

**Figure 3**

**Council Tax Band of not flooded properties**

- A and B: 41%
- C and D: 40%
- E and F: 19%

Conclusion: whilst all attempts were made to have the control groups of similar property distribution the returns have not reflected this. The effect is a possible distortion when average premiums of all "not flooded" properties is used, the figure could actually higher than if it had been adjusted to match “flooded” tax band mix.
Flood risk category of flooded householder returns (Fig.4)

![Flood risk of flooded properties](image)

Figure 4

Conclusion: returns of the properties in the different categories of flood risk is consistent with the proportions of those properties actually flooded.

Market share of insurance companies (Fig.5)
No insurance company is dominant. Whilst Lloyds TSB has a greater share of the market in Morpeth than it does nationally, the difference is not significant.

![Market share of Buildings insurance (Flooded)](image)

Figure 5

Only companies with six or more returns are highlighted. Sample size – 152

Conclusion: it is unlikely that there will be a significant impact on outcomes of a single insurance company’s decisions with regard to premiums following the flood.
Results of Buildings cover premiums and excesses.

Comparison of average increase per owner occupier household of Buildings and Contents cover. 2008 to 2010 (Fig. 6)

Whilst 25% of the flooded properties experienced an increase of 100% or more, the average percentage increase in premiums per household was 71%. One premium went down. Four increased by over 300%. None was over the 550% often quoted by the National Flood Forum.

It has been suggested that many householders who were flooded found that they were underinsured, that they rectified the situation by purchasing more insurance cover, and that this contributed to the large increases in premiums. This conjecture would be most likely to apply to contents insurance, but it has not been entirely supported by our returns. Whilst in a few cases the conjecture reflects the facts, it is counterbalanced by the number of returns that have indicated that householders have removed some elements of cover from their policies in order to keep increases within acceptable levels, for example cover for accidental damage.
Average premiums of Buildings and Contents cover (Fig.7)
Average premiums in 2008 were relatively similar for properties that were flooded and those that were not. In 2010 there was a marked difference. Whilst the average premiums of flooded properties increased by over £240, the average for those that were not flooded went down by nearly £40. The figures for properties that were not flooded may need to be adjusted in light of the fact that the distribution of council tax bands in the returns from the control groups did not reflect that of the flooded properties – as had originally been intended when the survey was designed.

Conclusion: The similarity of average premiums across the board in 2008 may indicate that, at that time, the insurance companies did not have an accurate assessment of the flood risks for the majority of Morpeth properties and that the 2008 flood alerted them to those risks.

Average premiums of Buildings and Contents cover for Risk Category (Fig.8)
The higher premiums for 2008 properties in the greater than 20yr flood risk category could well be attributed to them being in the C,D,E or F tax bands, to their larger floor areas for rebuild assessment costs, and to premiums reflecting risk.

- 20> 34% rise £206
- 75>20 65% rise £254
- 200>75 64% rise £240

Conclusion: A check on premium levels for other C,D,E or F tax band in areas of less risk shows that the greater than 20yr properties had higher premiums. This suggests that flood risk was taken into account in setting the higher risk properties in 2008 and why their premiums rose less on average (£40 less) than the other areas. The similarity of premiums and rises for the 75>20 and 200>75 year properties suggests that the likelihood of flooding is not generally taken into account for these risk categories.
Comparisons of owner occupier Buildings and Contents cover based on Council Tax Band (Fig.9)

From the figures it appears that council tax band has not been a determining factor when insurance companies have set rises in premiums and percentage rises.

- A and B 53% rise £183
- C and D 69% rise £296
- E and F 45% rise £253

Conclusion: The differences in these statistics could be attributed to the proportions of different elements in the premiums. The lower increases for E and F band properties could be affected by their distribution in the flood risk categories.
Conclusion: These figures confirm previous findings, and show the impact of flooding on premiums.
Comparison of premiums by different insurance companies for Building and contents cover, owner occupiers and flooded. (Figs.12,13,14,15&16)

* Equity and General is an independent insurance broker who has obtained cover for householders who have either been refused cover by their previous company or their previous company’s premiums were increased by more than they were prepared to pay.

Statistics for the different insurance companies are shown here. There is insufficient data for some companies so charts 13, 14, 15 and 16 use information from companies where there are six or more responses. There is also an issue with extent of cover, information regarding the cover provided by different insurance companies was not collected. Premiums of different companies will vary depending on the “Quality” of cover provided so charts 12 and 13 are not necessarily a fair comparison. This issue does not affect results of charts 14, 15 and 16 since it is assumed that policies are “like for like” for 2008 and 2010.

Figure 12

Figure 13. Companies where there were six or more returns
Four companies now have average premiums of over £800. Saga, Aviva Legal and General and Barclays, between them they have 25% of the Morpeth “Flooded” Market.

These statistics appear to indicate that these four companies are operating a fixed premium increase of an average of £387. More research is required to see if flood risk is having an impact on these results. 25% of the properties that were flooded in Morpeth are insured with these four companies.

Five of the companies in Figure 13 have average premiums of less than £600. Halifax, Direct Line, Lloyd TSB, Prudential and Churchill, 28% of the market.

Council Tax Band E and F has been omitted in the above table due to insufficient data. Results indicate that these five companies are increasing premiums on a percentage basis, dependent on the value of the property.
Percentage increase in average premiums, owner occupier Buildings and Contents, for which there are six or more useable results.

Conclusion: There is no consistency of approach to premiums for flood affected properties within the industry. Some companies appear to be increasing by an across the board amount while others are increasing by a percentage. The results shown do not take into account other factors that may have a bearing on increases by different companies. The results do show, however, that certain companies are reacting to the situation in a more aggressive manner than others as far as the consumer is concerned. Further analysis will be undertaken in the near future.
Excesses for flooded owner occupiers on Buildings and/or Contents (Figs.17&18)
Only 3% of respondents had such excesses of £1000 or more in 2008, one of which is still to be confirmed as correct as it is suspected that they have assumed that the £1000 subsidence excess is a flood excess. 37% now have excesses of £1000 or more, with a worrying 20% with more than £2500. All but one of the properties where cover is provided by a broker dealing with Lloyds of London have excesses of £2500, the other is £5000. The distribution of the excesses has little to do with flood risk category but more to do with the insurance company. 75% of properties where Saga is the insurance provider have an excess of £1000 or more, 100% of both Aviva and Barclays customers have £3500 or more. There are no instances of an owner negotiating a higher excess to lower their premium, all excesses have been imposed by the insurance company.

Conclusion: the insurers that have imposed high excesses also have the highest premiums. This suggests that certain companies are moving towards a more risk based approach to setting premiums and excesses. The Council of Mortgage Lenders has a rule of thumb that if a flood excess exceeds £2500 then the policy cannot be used as security for a mortgage. From the responses to our survey there is no evidence yet that mortgage lenders are applying this rule to the residents of Morpeth.
Householder Contents Insurance

Comparison of average increase per household of Contents cover. 2008 to 2010 (Fig.19)

This shows that the average percentage increase of premiums per household was 59% for properties that were flooded in 2008. 19% had increases of more than 100%. A large proportion of owner occupiers had combined buildings and contents cover where they were unable to separate the premiums, this reduced the sample size. It was compensated to some extent by responses from tenants.

![Graph showing contents average % increase per household]

The average flooded household experienced a 59% increase in premiums between the flood in 2008 and November 2010. Not flooded properties in flood risk areas only experienced a 12% increase. Not flooded properties outside the flood zone experienced a reduction of 5% on average.
**Average premiums of Contents cover (Fig.20)**
There may be other influences on the average premiums in 2008 for flooded properties that cause them to appear higher than those of not flooded properties.

![Contents average premium](image)

**Conclusion:** premiums for flooded properties increased dramatically for the period 2008 to 2010. As with Fig.7, it may be that insurers took little notice of flood risk in setting 2008 premiums and that it was only after the flood that more account of risk was taken.

**Average premiums of Contents cover for Risk Category (Fig.21)**
This shows that properties in the very high risk flood category do have higher contents insurance than those in the not so high risk areas. This is not necessarily because of them tending to be larger houses, cross checking with similar houses in the not so high areas confirms that their premiums are only slightly higher on average.

![Contents average Premium (Flooded)](image)

**Conclusion:** it is unlikely that any significant conclusions can be drawn from these findings, since the sample is too small.
Increases in contents premiums by insurance company (Figs. 22 & 23)
Only companies where there are five or more useable returns have been used for these statistics.

Percentage increase per household of contents premium (flooded properties).

Conclusion: because of the small number of companies and small sample size it is difficult to produce any significant conclusions. Whilst average premiums for all the companies can be compared to establish the expensive companies, there is little information of statistical relevance in the result.
Excesses for flooding on policies where the Contents premium is not part of a combined policy with Buildings cover.

(Fig.24)

No chart has been created for 2008 contents excesses since there was not one of £1000 or more. Contents cover as part of a combined policy has not been used as these are included in Fig.18. 34% of households now have an excess of £1000 or more, 24% of £2000 or more. 5% have excesses of £4000 or more.

Conclusion: although not published here, returns confirm that the companies that require high excesses for buildings cover also require high excesses for contents.
Renewals  
(Figs.25,26&27)  
Buildings: Figs. 25 & 26 highlight the difference between flooded and not flooded owner occupiers ability to change insurance companies.

Under the Statement of Principles, Association of British Insurers members are obliged to continue insuring very high risk properties if there is a likelihood of a flood alleviation scheme within five years. There is no such obligation for companies who are not members of the ABI. There is also no obligation for ABI members to take on new customers in this risk category.

In our survey only one property owner of a flooded property was able to change to a mainstream insurer by choice. Another had to change because their insurer was no longer in the home insurance market. Of the five that changed using a specialist insurance broker, three did so because their former insurer refused to renew their policies - two of the companies were ABI members, the third was not, but used an underwriter who was. The other two switched through choice because of unacceptably high renewal premiums. 39% of owners of properties that were not flooded were able to change companies easily, most with reductions in premiums.
Contents: Fig. 27 shows that householders have not been able to switch their contents cover any easier than their buildings cover.

Conclusion: The Statement of Principles currently protects all properties in the high flood risk areas of Morpeth to the extent that they are able to continue their buildings cover if they are insured by an ABI member. It does not allow consumer choice or guarantee affordable premiums (what is affordable is a matter for debate).

Installation of Flood Resistant Products

Owner occupier Households
(Figs.28&29)
Of the flooded owner occupiers 18% have installed flood resistant products since the 2008 flood.
The 13% or respondents for whom installing flood resistant products was a condition of cover all obtained their new policies through independent insurance brokers and are underwritten by Lloyds of London Syndicates. If those respondents - for whom installing those products was not a matter of choice - are removed from the analysis, the proportion of owners who said installing flood resistant products affected either their premium or excess becomes 15% of the sample.

All of the respondents who replied to the effect that they had not informed their insurers use companies that other respondents indicate do not take account of installation of these products when setting premiums and excesses.

85% of owners installing these products since the flood in 2008 have received no recognition of the fact from their insurers and there has been no reduction in premiums or excesses.

Anomalies

- One owner presumes he has had only a marginal increase in premium and no increase in excess due to installation of products, a second owner who uses the same insurance company and has installed similar products claims it has had no effect. The second owner has had a very similar increase in premium to the first.
- One owner with Saga received a reduced premium and excess the first year after the flood compared with what he was originally quoted, the other three with Saga have had no effect on their premiums or excesses.

It can be said that only one owner has definitely had any reduction in premium, his overall premium increase 2008-2010 is still over 160%. The other ones have only had decreases in excesses, one of them was £10000 down to £7500 on contents cover, his excess is much less on buildings as it is with another company, the other owner still has a £2500 excess (we have no information about what it would have been without the products). There is very little evidence of insurance companies sharing the risk with their customers.