



Flood Insurance Factsheet

Flood Insurance – The History

Up until a few years ago it was unusual for small businesses to have difficulties accessing reasonably priced flood insurance thanks to the 'Statement of Principles' agreement that had been in place between the Government and insurance industry since the 1960s. Under the terms of the 'Statement of Principles' agreement insurers were obliged to maintain flood cover on homes and small businesses in all but the highest flood risks areas in return for the Government's commitment for continued investment in flood defences.

The agreement was re-negotiated following the widespread flooding of 2000, and even with tighter restrictions imposed by insurers, cover was still available for all areas where the risk of flood was assessed as a once in a 75 year event and in higher risk areas cover where flood improvements were planned.

However, with increasing concerns about climate change and the level of flood defence investment, insurers informed the Government that they would not renew the 'Statement of Principles' agreement when it expired in 2013. It was subsequently extended to allow time for a replacement scheme to be introduced.

Flood Re Scheme

In 2016 the Flood Re scheme was introduced as a replacement for the 'Statement of Principles'. It is funded by a compulsory £10.50 levy on all UK home insurance policies, enabling insurers to reinsure properties in high flood risks areas to Flood Re and therefore offer flood cover on all homes built prior to 2009 (changes to planning and flood resilience rules in 2006 meant homes built from 2009 should not have issues obtaining insurance). However, the problem is Flood Re only applies to residential properties and cannot help small businesses or commercially owned residential properties such as blocks of flats.

The reason commercially owned properties were not included in Flood Re is not without controversy. At the time, the Government said they had seen little evidence that affordable flood cover would not be available for commercial property in flood areas. However, their conclusion was based on analysis from 2015 when the 'Statement of Principles' agreement was still in place and most small businesses did not have problems obtaining flood cover. It should not really have been rocket science to work out that this would change if you removed the insurers' obligation to provide flood cover.

Unsurprisingly once free of this obligation insurers began to either exclude flood completely or apply significant excesses in higher flood risk areas and the problem is getting worse. In recent years the UK has suffered widespread flooding, namely the winters of 2015/16 and 2019/20, and since then more and more insurers are withdrawing or restricting flood cover in areas they believe could flood in the future.

The Government did review the availability of flood cover for small business again in 2018 but it was based on a small survey undertaken in 2017 (when the problems we are now experiencing had only just started to emerge) and the vast majority of the businesses surveyed were not even in high flood

risk areas. The review concluded that the lack of affordable flood cover for small businesses was not a significant issue, although if you are reading this the chances are you are having difficulties obtaining flood cover and may not agree!

Part of the problem is the discrepancies between the information used by the Government and insurers. The flood risk on a Government website such as <https://flood-warning-information.service.gov.uk/long-term-flood-risk/map> may show as medium but an insurer could say it is in their highest flood risk area as they use different flood mapping tools. Many of these seem to be based on worst case scenario modelling and on occasions seem to defy logic given local knowledge.

It appears the Government still hope that a solution will come from the insurance industry but as more insurers impose exclusions or restrictions this looks increasingly unlikely, and a Government backed scheme along the lines of Flood Re for businesses is possibly the only solution.

The Government have asked DEFRA (Department for the Environment, Food and Rural Affairs) to re-examine the issue by 2022 and this time they will hopefully analyse the issue more thoroughly and realise the extent of the problem. However, small businesses need to get the issue of flood insurance on the Government's agenda so if you are having a problem lobby your MP.

The Types of Flood Risk

It will usually be obvious when a property is at risk of flood from rivers or the sea, but other flood risks may not always be so obvious.

- surface water run off of rainwater often coupled with drainage issues
- build-up and emergence of groundwater
- underground streams

In higher risk flood areas there is usually a reliance on the maintenance and management of flood defences and drainage systems by water companies and environmental/local authorities although it is often a complex problem involving other parties such as farmers and the removal of water from one area can often simply transfer the problem elsewhere.

Likely Flood Cover Restrictions

- A complete flood exclusion
- Excess – the exclusion of the first £250 or £500 of any flood claim is the norm under most property policies but in higher risk flood areas excesses of £50,000 or more are becoming commonplace.
- Co-insurance – the policyholder is held responsible for a certain percentage of the claim. If a 25% Co-insurance clause applies and a £100,000 claim occurs the insurer pays £75,000 and £25,000 is uninsured. Insurers usually also apply a minimum contribution ie with 10% Co-insurance and a £10,000 minimum contribution the first £10,000 is always uninsured.

You should check to make sure that the restrictions only apply to flood as some insurers can impose the restrictions on other 'wet' perils such as storm and escape of water (previously commonly known as burst pipes).



Aside from any additional flood restrictions, you should be aware that many property damage policies already contain a 'Stillage' warranty or condition in respect of ground floors and basements. This means that property must be kept a certain height (often 4 to 6 inches) off the floor to be covered.

Possible Insurance Solutions

Existing Insurer – generally, it is often best to stay with the same insurer and whilst their new terms may seem onerous, when tested by marketing to other insurers, they may well be the best on offer. Bear in mind that insurers will often base their terms on your postcode alone, so there is the possibility they will improve their initial terms if a convincing argument can be made to show that your property is at a lesser risk of flooding. The type of mitigating factors that may influence an insurer follows below.

Specialist Insurers – there are some insurers who will still consider properties in higher flood risk areas however, premiums are generally expensive and excesses high. Some insurers will just look at the flood risk in isolation, but others insist on providing 'full' cover including fire and other insurable perils.

Flood Excess Insurers – it is now possible to insure your flood excess with a separate specialist insurer.

Parametric Cover – is an innovative solution from Flashflood who make a set payment if flood water reaches a pre-agreed trigger point on a sensor installed by Flashflood.

What can you do if you face a flood exclusion or restrictions?

As mentioned above, the options may be limited but providing the type of information listed below to either the existing or a new insurer may help.

Investigate – check with your local authorities as to whether flood defence improvements have been undertaken or are planned.

Flood Resilience – identify features of the building that are resilient to flood water such as raised electrics, solid floors and porous (lime) plaster. Realistically, all these will only be present in very modern properties or those reinstated following a previous flood claim.

Flood Resistance - Measures that stop water entering the property such as specialist flood barriers for doors and air bricks and no return valves or seals to prevent backups in sewage systems.

Flood Warnings – sign up for the Environment Agencies flood warnings to know when to put protective measures in place.

Flood Plans – have a plan as to who does what in the event of a flood warning or should a flood occur. Make sure the plan is documented, tested and can be produced to insurers as evidence.



If you have suffered a Previous Flood Claim – explain what happened and detail any improvements that have been made since the flood. These could include improvements to flood defences by local authorities, water companies sorting drainage issues or your own improvements to flood resilience and protective measures. Try and show why a flood is unlikely to happen again or how the measures that have been taken would minimise the damage if a flood does occur again.

Do not underestimate the risk of flood

Whilst there may be an overreaction by insurers in some areas, our experience is that flooding has become more widespread in recent years and they can be devastating.

- A few inches of water can cause an immense amount of damage.
- Flood water is rarely clean, it is usually contaminated with sewage, chemicals and waste.
- We frequently deal with claims on properties in areas that 'have never flooded before'.
- Ensure you have [Business Interruption insurance](#) resulting from flood damage as reinstatement can take many months because of the need to dry the property.

We would always recommend buying flood cover if it is affordable even with a high excess or co-insurance.

Finally, if you are moving ensure you check the flood risk and the availability of insurance on the new location. Do not just rely on the Government's environmental flood mapping sites, as already mentioned many insurers use different systems and the Government's flood mapping may provide false reassurance. Always check with us.

We hope that you have found this factsheet of use and for further information about the possible solutions please speak to your usual contact at Nsure, telephone 01903 520200 or email Michael.bickers@nsure.co.uk