



An Roinn Airgeadais
Department of Finance

Summary of Public Consultation on Climate Change and Insurance in the context of the 'Climate Action Plan 2019 to Tackle Climate Breakdown January 2020

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1 Detail of Consultation

The Insurance Policy section in the Department of Finance is currently progressing ‘Action 177’ of the Climate Action Plan to Tackle Climate Breakdown to *‘Review the challenges associated with the availability of property (home and business) insurance, and possible responses to this issue’*.

In the context of the Climate Action Plan, the Department of Finance launched a public consultation on climate change and insurance in July 2019. A public consultation paper was prepared to assist this goal. The paper provides an overview of what the Government is doing to mitigate flood risk, the current insurance model in Ireland, the risk posed by climate change, and lessons from other countries.

A few key areas which were examined and on which views were sought are as follows:

- Mitigation of flood risk in order to make long-term ‘un-insurability’ less of a problem;
- Unavailability of cover where flood defences are built to a “1-in-100 year” standard;
- Greater transparency in relation to flood risk data;
- Pooling of risk as a solution; and,
- Whether certain areas are uninsurable because of the nature of their flood risk.

The closing date for submissions was 15 October, 2019, and late submissions were also accepted. 12 submissions were received from industry, business associations, professional bodies, a political party and members of the public.

1.1 The public consultation questions posed in the paper were as follows:

1. Have you encountered greater difficulty either getting or renewing flood cover due to weather/climate-related issues?
2. Do you agree that managing flood risk is the best way of increasing insurability? If not you might explain why, and also you might set out what additional approaches you think would be more effective.
3. Do you have any particular comments or views on the above? Aside from flooding are you aware of any other climate-related exclusions in any property insurance policies you hold?
4. Have you had a claim refused arising from weather/climate-related issues?
5. Do you agree with the Government’s strategy to increase flood insurance coverage?
6. If you disagree, what alternative approaches are available to the Government? In responding to this question you might outline the benefits of such an alternative vis-a-vis the current approach and provide a view on the potential long-term costs of it.
7. What do you think can be done to increase the level of flood insurance in areas where demountables have been built?

- 8.** What if any reasons have been provided to you by insurers where insurance has been refused where flood defences have been built?
- 9.** Have insurers demonstrated any flexibility when you have engaged with them on this matter; for instance providing cover with an excess?
- 10.** What are your views on the use of policy excesses/ policy exclusions as a risk management tool by insurers?
- 11.** Do you agree that from a cost benefit analysis perspective that there may be areas where it will not be possible to manage flood risk sufficiently so as to make them insurable?
- 12.** If you disagree with this statement, please explain why. For instance do you believe flood cover should always be available, even where there is certainty that a location will be flooded regularly?
- 13.** Where insurers have declined to provide flood cover, have they offered cover for other household risks such as fire and theft?
- 14.** Please provide any views you have on options 1 to 3.
- 15.** Are there any other options that the Government could consider?
- 16.** Do you agree that if the Government were to put in place an insurance pool arrangement that it would have to manage its long term exposure to such an arrangement? How would it do this? For instance should it exclude businesses, or houses built after a certain date from the pool as has happened in the UK with Flood Re?
- 17.** What are your views on the feasibility of a Flood Re type approach?
- 18.** If you favour such an approach, what can be done to make it more attractive to industry to develop?
- 19.** Do you agree with the limitations imposed on Flood Re in the UK as to who it should apply to?
- 20.** Do you have any views on the US system?
- 21.** What are your views on Individual Property Protection (IPP) as a concept, even though it does not seem to have had any impact from a cost of insurance perspective in the UK yet?
- 22.** What do you think can be done to increase flood risk data transparency?
- 23.** Do you accept that greater flood risk data transparency can also have the effect of making flood cover in certain areas more difficult to obtain?
- 24.** What are your views on the role for InsurTech in broadening insurance provision in relation to climate/weather-related events? Please outline any ideas you have as to how this could be done.

2 Executive Summary of Responses:

We have broken the summary up into two parts one of which is thematic and the other is a summary list of the main points from both industry and other representative groups and individuals which enables a clear overview of the issues raised.

A range of views were received from industry, representative groups and members of the public, many of which were broadly supportive of the current government policy which is focused on the development of a sustainable, planned and risk-based approach to managing flooding problems. Groups and individuals who have experienced the impact of flooding provided an insight into the challenges surrounding the availability of flood insurance. Suggestions were also made surrounding the exploration of alternative models, improvement in the transparency of data, and arguments for and against compulsory insurance.

2.1 Thematic overview

While not exhaustive, the key common themes that were raised by a number of submissions can be summarised as follows:

Flood Cover in areas with Demountable Flood Defences

We received feedback from representative groups and members of the public that their experience is that where communities are protected by the Office of Public Works (OPW) flood alleviation 1:100 year standard (i.e. assessed by the OPW to having a 1 in 100 year flood risk) households and businesses are still being refused flood insurance cover or charged large excess loadings. Examples were provided of the Fermoy, Clonmel and Mallow schemes where OPW have completed defence works but flood cover is still difficult to obtain.

Industry contended that there are complexities involved with demountable flood defences. Their argument is that while demountable flood defences are effective where correctly deployed, there are significant interdependencies, including manual intervention, which significantly increase the risk of failure, particularly over time. Because of this potential exposure and concerns about demountable flood defences being deployed correctly or in time, insurers have a limited risk appetite for providing flood insurance in areas where demountable defences are in place. Consequently insurers may wait until the efficacy of flood management measures is proven before providing insurance in particular flood-prone areas.

The use of Policy Excesses/ Policy Exclusions as a Risk Management Tool by Insurers

There were varied responses in relation to policy excesses/policy exclusions as a risk management tool by insurers. One view contended that flood insurance claims are generally very costly and an increased excess is of limited value as a risk management tool in such circumstances and that policy exclusions are a useful tool for insurers to continue to provide coverage for other perils.

The industry submission however argued that excesses and exclusions of flood cover (while providing cover for other perils such as fire etc.) are an essential risk management tool for insurers. Their view is that they can act as an alternative to not providing cover at all.

Submissions from members of the public and representative groups in some instances raised issues with this practice, such as that it appears to be a way for insurers to continue to gather premiums with little risk and that it is a crude instrument which is being used by the insurance industry and there has to be some form of independent review of this strategy.

Legislating for Compulsory Flood Insurance Cover

Some representative groups and members of the public claimed that the Government should legislate for compulsory flood insurance cover where OPW works have completed a flood relief scheme to the required EU standard or where the OPW has certified the flood risk to be low or medium (1 in 100 year risk, or better).

For example, with regards to the idea of legislating for compulsory insurance, one consumer group disputes the view expressed by others that making the provision for flood insurance compulsory will have the effect of making it unaffordable. In support of their view that consumer group argue that this is not the experience of car insurance in Ireland, where insurance is mandatory.

Their submission supports legislating to compel insurance companies to provide flood insurance citing 'The Joint Committee on Environment, Culture and the Gaeltacht Report on Flooding and Property Insurance in Ireland 2015' as the basis for this view. That Report concluded that, as a last resort, if after examining the various models no adequate solution can be reached, the State could consider the merits of introducing legislation that would compel insurance providers to provide flood insurance to everyone. The group conveyed their support for the proposed Flood Insurance Bill 2016 by Deputy McGrath.

Industry expressed their scepticism for any kind of compulsory flood insurance cover. Their argument is that insurers operate in a regulated industry and are required to conduct their business in a prudent manner. Solvency II requires them to have detailed and effective risk management systems in place. As with all risks, insurers are required under Solvency II to price and mitigate flood risks and must price cover in line with the probability of a property being flooded. Therefore they contend that making the provision of flood insurance compulsory would have no effect on making it affordable and could result in a potential loss of insurance undertakings to the Irish market.

Flood Risk Data and Transparency

In relation to flood risk data, submissions from industry emphasised the importance of receiving information from OPW so that they can factor it into their underwriting decisions. On the idea that the production of greater flood risk data could have the effect of making flood cover in certain areas more difficult to obtain, industry contend that flood hazard areas are well known to insurers and what they are primarily interested in are the benefit areas protected by flood defence schemes so that they can provide more flood cover to more people.

Responses from a number of representative groups and members of public in contrast asserted that the information supplied by Insurance Ireland (the representative body for insurers) to the OPW is inaccurate as to the true levels of flood insurance cover in areas where flood defences have been completed. Concerns were expressed that the Memorandum of Understanding (MoU) between the OPW and Insurance Ireland - which provides for the exchange of data in relation to flood defence schemes completed to the desired standard - is not working as there is a view that insurers have not adjusted their attitude towards the availability of flood cover.

A solution proposed by a couple of groups is that an independent overseer be given the task to verify and ensure that where a reduced risk of flooding has been achieved due to the completion of flood protection works to an accepted defence standard by OPW, that this data is acted upon in a timely manner to improve the insurability, and affordability of insurance of businesses and homeowners in affected areas. It was suggested that the Central Bank of Ireland (CBI) would be the most appropriate overseer of the application of this data, with the initiation of scheduled audits to encourage the responsiveness of Insurance Ireland members to improvement in affected flood prone areas

Some submissions from the public and representative group also recommended that mechanisms should be put in place to ensure the number of homes and businesses in high-risk flood areas that have no insurance can be calculated and tracked. Similarly, submissions from consumers suggested that further work is required on the collation of information on the economic losses, costs and damage arising from extreme events and that it would also be useful if the climate projections used by the industry to guide their decision making were made available.

OPW CFRAM Maps – use of these maps by the Insurance Industry in flood assessment risks

A common theme raised in responses was about whether OPW Catchment Flood Risk Assessment and Management (CFRAM) Maps which show the flood risk for 300 communities should be used by insurers for risk modelling.

Regarding the CFRAM study, one submission noted that due to the difficulties of flood risk modelling, there is an argument that the 1-in-100 year flood risk measure is not necessarily the best measure and that it is important that such models are calibrated for expected future rainfall and not historic events. Industry pointed out that it uses its own flood modelling tools for assessing the level of risk that it is willing to underwrite in relation to individual properties, and does not use the OPW Flood Maps to inform its flood modelling.

There was some support from members of the public and representative groups that insurers should use the CFRAM maps studies and other up to date information on OPW projects completed, with data being continually updated as to flood events in the future to mitigate flood insurance price increases.

Planning, Prevention and Property Protection

Industry and environmental groups noted the importance of vigilance in the area of planning to ensure that properties are not built on floodplains in the future.

Industry and consumers are mostly supportive of the concept Individual Property Protection (IPP). A number of submissions argued that Government should consider the merits of incentivising proactive

individual flood resistance measures and flood resilience measures such as those applied via the Individual Property Protection in the UK.

One submission proposed an option for Government to consider is the application of higher development levies for flood-prone areas to compensate for the additional cost of building flood defences, flood monitoring, warning systems and any Government-sponsored insurance schemes.

Insurance Pool Model like the UK Flood Re Model

Regarding the UK model Flood Re, industry were not in favour of an Irish version of this as they argue that Ireland does not have the scale to build up an adequate fund. The set-up costs would be high and there would be significant ongoing running costs. In addition, an appropriate flood insurance premium would need to be set. Reinsurance would need to be acquired and this could be difficult to obtain.

A consumer representative group made the case for using a percentage of the money raised from existing insurance levies such as the Insurance Compensation Fund (ICF) in order to establish a support scheme for communities who currently cannot get flood insurance cover.

Submissions from representative groups and members of the public were split on the merits of a Flood Re Model like the UK. One group proposed that a Government backed scheme could be set up specifically for not-for-profit owners' management companies ("OMCs"). Another group made the case that all major works schemes completed by the OPW should be covered by commercial insurers. It was also suggested that communities who do not pass a cost benefit analysis for flood defences would need a Government backed insurance scheme.

Coastal Erosion / Flooding

A number of submissions from members of the public and representative groups argued that the discussion on climate change impacts on insurance cannot be solely focused on mainland flooding issues, as there has been other impacts such as the issue of coastal erosion and coastal flooding. There were recommendations that accelerated action and investment on this issue takes place and that Government publish a national mitigation plan on this issue.

Sustainable Activities of Insurers

Submissions from some public groups contended that households face the prospect of more expensive and/or more curtailed insurance due to climate change meaning that home owners will have to build up rainy-day funds to cover or absorb these risk events. It was expressed that in addition to financial compensation for losses after an extreme weather event, insurance can provide incentives to increase understanding of risk and take steps to reduce it while seeking to avoid maladaptation. One submission put forth the argument that insurers can have a positive influence on customer behaviour such as reducing car accidents and increasing life expectancies by encouraging customers to alter their behaviours. The submission suggested that in a similar way insurers can contribute to customer behaviour by rewarding houses where flood resilience measures are in place and contributing to the identification of at-risk houses.

A recommendation is that the Department of Finance should look at ways of promoting the development of these ethical products and the Department should consider where responsibility lies for encouraging and monitoring insurer's practices in relation to climate related risks.

Ireland National Adaptation Policies

A submission from an independent advisory body highlighted that in November 2018, the European Commission published an evaluation of the EU strategy on adaptation. The assessment shows a number of areas where further progress is required and found that in Ireland, adaptation has not been mainstreamed in insurance or alternative policy instruments, where relevant, to provide incentives for investments in risk prevention.

A Just Transition

A number of submissions highlighted that vulnerable socio-economic groups are the least well equipped to adapt to climate change impacts and associated challenges such as insurance. Community resilience building also came up in submissions as a resource which could assist those vulnerable who live in low lying fluvial, pluvial and coastal flood prone locations.

2.2 Summary of Insurance Industry and other related views¹

The main views of the insurance industry and related submissions are as follows:

- Were broadly supportive in principle of current Government policy in relation to increasing flood insurance coverage which is focused on the development of a sustainable, planned and risk-based approach to managing flooding problems.
- Noted the importance of vigilance in the area of planning to ensure that properties are not built on floodplains in future.
- In relation to flood risk data emphasised the importance of receiving information from OPW so that they can factor this information into their underwriting decisions.
- On greater flood risk data having the effect of making flood cover in certain areas more difficult to obtain, it was contended that flood hazard areas are already well known to insurers and what they are primarily interested in are the benefit areas protected by flood defence schemes so that they can provide more flood cover to more people as flood models cannot take account of such flood defence information until it is made available.
- Regarding the CFRAM study it was noted that due to the difficulties of flood risk modelling, there is an argument that the 1-in-100 year flood risk measure is not necessarily the best measure and that it is important that such models are calibrated for expected future rainfall and not historic events.
- On flood defences/ demountable defences, the view was expressed that the fixed defence approach is essential when building flood defences. The main argument for this is that while demountable flood defences are effective where correctly deployed, there are significant interdependencies, including manual intervention, which significantly increase the risk of failure, particularly over time. Should a failure occur and flooding results as a consequence, the financial impact for insurers, it is argued would most likely be very significant. Because of this potential exposure and concerns about demountable flood defences being deployed correctly or in time, insurers have a limited risk appetite for providing flood insurance in areas where demountable defences are in place. Consequently insurers may wait until the efficacy of flood management measures is proven before providing insurance in particular flood-prone areas.
- There were differing views expressed on the use of policy excesses/ policy exclusions as a risk management tool by insurers. One view is that flood insurance claims are generally very costly and an increased excess is of limited value as a risk management tool in such circumstances and that policy exclusions are a useful tool for insurers to continue to provide coverage for other perils. The other view was that they are useful as they serve the purpose in some cases for enabling the

¹ This section includes the views of the Society of Actuaries

provision of flood cover in circumstances where it would not be otherwise be possible to provide it.

- There was a proposal that Government consider the use of higher development levies for flood-prone areas to compensate for the additional cost of building flood defences and flood monitoring and warning systems and any Government-sponsored insurance schemes.
- Regarding the UK model Flood Re industry was not supportive as they set out that Ireland does not have the scale to build up an adequate fund. The set-up costs would be high and there would be significant ongoing running costs. In addition, an appropriate flood insurance premium would need to be set. Reinsurance would need to be acquired and this would be difficult to obtain. Whilst acknowledging there are economies of scale achievable in the UK that are not achievable in Ireland, another view pointed to the considerable insurance management expertise in Ireland with an established captive management industry which may be able to provide management facilities at better value-for-money than suggested in the consultation paper.
- The potential of InsurTech was noted but it was acknowledged that it is in its early stages.

2.3 Summary of Representative Group's views

The main views of representative groups and individual members of the public are as follows:

- Representative groups and members of the public were broadly supportive of current Government policy of increasing flood insurance coverage but several submissions raised particular issues/concerns.
- The feedback from consumers is that where communities are protected by the OPW flood alleviation 1:100 year standard (i.e. assessed by the OPW to having a 1 in 100 year flood risk) schemes are still being refused flood insurance cover or charged large excess loadings. This is particularly so in areas where there are demountables – i.e. flood defence systems that require action to be taken to be effective.
- Some consumer groups contend that insurance refusals are often not on a scientific basis and that there is a lack of transparency from insurers.
- Consumer groups expressed their dislike of the retention practice (i.e. the practice of making interim payments) by insurers and claims insurers have ignored the Consumer Protection Code by not advising homeowners who notify a claim of their right to retain their own representative.
- Some consumer groups asserted that the information supplied by Insurance Ireland is inaccurate as to the true levels of flood insurance cover in areas where OPW have completed alleviation schemes. From these groups there was some criticism of the Memorandum of Understanding (MOU) between the OPW and Insurance Ireland. It was argued that the exchange of data in relation to flood defence schemes completed to the desired standard is not working as well as it should be and that insurers have not adjusted their attitude towards the availability of flood cover.
- A solution that some consumers proposed is for insurers to be allowed to refer to CFRAM studies and to OPW projects completed, with data being continually updated as to flood events in the future to mitigate flood insurance price increases.
- Another solution that a number of groups argued for is the appointment of an independent overseer to verify and ensure that where a reduced risk of flooding has been achieved due to the completion of flood protection works to an accepted defence standard by the OPW, that this data is acted upon in a timely manner to improve the insurability, and affordability of insurance of businesses and homeowners in affected areas. Some consumer groups suggested CBI as the most appropriate overseer as they would be able to carry out scheduled audits to encourage the responsiveness of Insurance Ireland members to improve their coverage in areas where defence works have been built.
- Some support from consumer groups for the development of a data platform to be used by public, Government and private companies to aid the understanding of flood risk and resilience, and agree

with its value for increasing transparency, and underpinning objective data-based analysis for assessing against flood risk.

- A number of consumer groups recommended that mechanisms should be put in place to ensure the number of homes and businesses in high-risk flood areas that have no insurance can be calculated and tracked. Similarly, there was suggestions that further work is required on the collation of information on the economic losses, costs and damage arising from extreme events and that it would also be useful if the climate projections used by the industry to guide their decision making were available.
- Some consumer groups expressed support for legislation by Government to compel insurance companies to provide flood insurance.
- A number of consumers proposed that accurate weather forecasts and alerts on a more localised basis could assist to increase the level of flood insurance in areas where demountables have been built.
- A number of submissions by consumers raised the issue of coastal erosion and coastal flooding with recommendations that accelerated action and investment on this issue takes place and that Government publish a national mitigation plan on this issue.
- In relation to Individual Property Protection a number of submissions by consumers argued that Government should consider the merits of incentivising proactive individual flood resistance measures and flood resilience measures such as those applied via the Individual Property Protection in the UK.
- Community resilience building is another theme that came up in submissions from consumers for vulnerable, low lying fluvial, pluvial and coastal flood prone locations.
- A theme in consumer responses is that that prevention is a key element of adaptation, particularly in the context of planning new developments, new infrastructure and sustainable land use.
- Submissions from representative groups and members of the public were split on the merits of a Flood Re Model like the UK. One group proposed that it could be set up specifically for not-for-profit owners' management companies ("OMCs") of managed residential estates to provide affordable block insurance to OMCs that cannot currently secure cover, or that face prohibitively expensive premiums. The scheme would extend beyond flood cover, to capture risks such as fire, public liability, etc. They set out their argument for such a model on the basis that OMCs and apartment blocks are not commercial properties.
- A number of submissions by consumers and representative groups raised that the Department of Finance should consider international models such as the American crop insurance model, the French Flood Insurance model and New Zealand's "no fault" car insurance model.
- A common theme among submissions from consumers and representative groups was that Government, industry and communities should consider the implications of climate change and where possible adapting "green" friendly policies/adaptations such as natural flood barriers.

- There was a suggestion to get engagement of new entrants in the flood prone segment of this market will require that transactions costs facing new entrants who have expertise in the pricing of such markets to be minimised.
- One submission proposed a potential moral hazard by providing the example where land is initially zoned as high risk of flooding (Scenario A) and land prices reflect this policy; then the zoning is changed to allow building, and the revised land prices reflect this new status (Scenario B). Buying land under A, and selling under B, is a rent-capture practise. The submission contends the policy system needs to reflect the reality of the incentives to “game the system”.
- A submission highlighted that in November 2018, the European Commission published an evaluation of the EU strategy on adaptation. The published evaluation package also contains assessments of each EU Member State’s national adaptation policies under an adaptation preparedness scoreboard prepared by the Commission. The assessment shows a number of areas where further progress is required and found that in Ireland, adaptation has not been mainstreamed in insurance or alternative policy instruments, where relevant, to provide incentives for investments in risk prevention. The submission recommended that further engagement with other European countries on addressing the issue of insurance and climate change should take place. Overall, the submission contended that climate change and insurance policy should integrate more closely with the National Adaptation Framework, along with sectoral and local adaptation policy under it. This the submission argued should include considering potential risks such as changes in forest fires and wind speeds or storminess due to climate change.



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