

Address by James Dalton to British Damage Manage Association's Property Claims conference

23 November 2017

The Value of Partnership

Introduction

Good morning. And thank you for that introduction.

It's been six years since I last spoke at the BDMA conference and it is genuinely a pleasure to be back with you this morning. As I was preparing my remarks for today, I went back to look over what I said back in 2011. I spoke then about the need for the Government to deliver a sustainable, long-term solution to the problem of the availability and affordability of flood insurance; ensuring that as an industry we get our response to surge events right; and finally I touched on the challenges associated with the increased number and severity of escape of water claims.

Interestingly, I will touch on two of those issues again today. But when he invited me to participate in today's conference, Jonathan asked me to talk about the value of partnership in the work that we do as the major trade body representing Britain's property insurance sector. So that's what I will do. But in doing so, I will reflect back on what I said in 2011, consider progress since then and think about some of the challenges of the future.

Who are the ABI and what do we do?

But first, I am conscious that some of you will be unfamiliar with the ABI and what it is that we do. So by way of context, I thought I would start with a brief introduction to who we are. The ABI is the voice of the UK's insurance and long-term savings industry. With over 300 companies in membership, we represent the views of the sector to politicians and policy makers here in the UK, in Brussels and across the world; we represent the sector in the media and we get the right people together to help inform public policy debates.

The UK insurance industry is a success story and has much to be proud of. All too often, insurance is viewed as just another part of the amorphous financial services sector. So we need to get better at demonstrating and communicating the importance of the insurance sector to the wider UK economy. Our world-leading insurance sector continues to help Britain thrive. Insurance adds £40 billion a year to the UK economy, employing 300,000 people. Three quarters of these people aren't London-based and enjoy highly skilled careers in 145 towns and communities up and down the country. Not only is insurance the UK's third largest export industry, we are also a key enabler of trade by many other industries in the wider economy – from small textile companies to the UK's automotive sector.

So telling the insurance story is an important part of what we do, as is telling the story of how property insurers and their supply chains help customers in their time of need. And to continue doing that, the ABI seeks to deliver a claims and underwriting environment that works for consumers and we seek to influence the public policy and regulatory environments to respond to the future challenges facing the industry.

To be successful, we can't do any of this alone. Obviously, we need to work closely with our own member insurance companies, we need to work with the industry's regulators and with the Government of the day, through Treasury, Defra, DCLG and the Home Office amongst other Government agencies. Beyond the obvious people who we need to engage with, we are more successful in delivering outcomes for our members if we work with others. As the

Director responsible for all our work in the general insurance market, I drive a culture in my teams that it is outward looking and collaborative.

So the name of my presentation today – the Value of Partnership – is quite deliberate. I genuinely believe that we need to reach out into the wider world and into the wider market in which our firms operate in order to help best serve our members' interests. This is even more important given that most of the people who work at the ABI are experts on policy development and advocacy rather than technical experts on building design or repair. So we need the input, help and support of the experts in the field to understand key developments and trends operationally on the ground. Hence our long-standing partnership with the BDMA and why I'm here today.

The Value of Property Insurance

And it is the supply chain expertise represented here that is fundamental to a well-functioning property insurance market in the UK – a market which underpins the resilience of millions of households and businesses across the country. In 2016, property insurers paid out £4.7 billion in claims – almost £13 million per day. That's split by around £7.4 million in claims per day to households and around £5.5 million per day in commercial property insurance claims.

Property claims costs continue to cause concern, even at a time of recent benign weather. The ABI's property claims statistics for Q3 2017 show that the total cost of claims incurred was £878 million, and the number of claims was up by around 13,000 on the previous quarter. Domestic escape of water claims increased to £160 million for the quarter and business interruption claims are the highest they have been since the first quarter of last year.

As part of our drive as an industry to increase our transparency we're committed to releasing data on a quarterly basis on the average property premium paid by households. Our household premium tracker indicates that the average price paid for combined policies increased by 1% over Q3 to £304. But if we assess the annual average premium since we first introduced the tracker in 2012, the average premium has consistently fallen over the last five years from its high of £342.

Importance of claims handling and supply chain management

If I look across at the motor and liability insurance markets, earlier this year they faced a massive increase in costs because of the Government's decision to reduce the discount rate applicable to catastrophic personal injury claims with a resultant impact on the cost of these insurance products. Compare this with the property claims environment I've just described, where there has been a much more subtle and steady increase in costs but where average premiums are going down. In this context, it shouldn't come as a surprise to anyone that insurers are focused on getting their customers to pay a premium that it is fair whilst at the same time as ensuring they have rigorous cost control in place.

On the former, the ABI has been leading the way with our #IPTsUNFAIR campaign that ran in the lead up to yesterday's Budget. IPT has doubled in the last two years from 6% to 12%. So we were particularly pleased that the Chancellor did not increase IPT further in yesterday's Budget.

On the costs side of the ledger, it has become even more important for property insurers to work with their supply chains to consider where efficiencies can be made to keep buildings and contents insurance affordable and to improve the customer experience.

It is often said that claims are the shop window through which the insurance industry is judged. For most customers, insurance is a grudge purchase of an intangible product that provides them with a promise of peace of mind should the worst happen. It only becomes real when a customer starts the process of making a claim. They have high expectations and they rightly expect their insurer to make good on the promise they were sold.

Unfortunately, when it comes to someone claiming, that is often the point when they realise that they haven't got the cover they thought they had. As we've seen through claims acceptance rates, one in five home insurance claims end up being declined. Therefore, it's important for us as an industry to ensure that customers understand the cover they are purchasing, how to claim and, crucially, what's covered and what's not.

Despite its defacto compulsory nature and its consequently high uptake, home insurance is a surprisingly complex product. There are many providers, offering many different types of cover, which can mean customers think they are covered for things when they aren't. This problem is accentuated in a market where consumers are encouraged to shop around and to focus on getting the cheapest price rather than thinking about what cover they actually need.

It's in this context that we at the ABI have been doing some significant work in recent years to improve customer understanding of home insurance. Our Insurance Experiments project is a fun and engaging way to explain some of the key concepts of property insurance in short animations which we have been promoting through Facebook and other social media. For an industry that is traditionally a bit "small c" conservative, it's quite a different way of communicating. And it has been much more successful than we anticipated in terms of the number of people who have engaged with the animations and visited the unique website. I would encourage you all to take a look at the animations if you haven't come across them already – there is a link via the ABI website if you aren't on Facebook!

And to compliment that work, we have continued to produce both consumer and practitioner-facing booklets and guidance. For example, last year we worked closely with the BDMA on the Water and Flood Damage Restoration guide. It is specifically designed to ensure the right process is followed when dealing with both escape of water and flood damage claims to maximise efficiency.

The key point that I want you to take from this is that you can undertake the best repairs in the world but the customer is not going to thank any of us if they find out too late that they can't make a claim, that the repair is not what they asked for or it takes longer than you said it would. Expectation management is key. As is keeping the customer informed in plain English of how their repair is progressing. So to compliment the work that we are doing at the ABI to improve consumer understanding of property insurance, my ask of you all today is to ask some challenging questions of your own company's customer engagement and communication. If you think it's perfect and nothing can be improved, then I suggest that you think again. If it's good, great. But there's always room for improvement. And it's continuous improvement and new ways of working that will set you apart from your competitor and that will improve our sector's reputation with consumers.

Surge events

When a significant volume of claims hits at the same time makes what I've just been talking about is even more important. We call these "surge events" but customers call it making a claim. Surge events – whether a serious flood, a significant storm or a deep freeze - test how the supply chain works, our state of preparedness and our levels of capacity which is certainly something to be thinking about as we come into the winter months. Increasingly accurate and sophisticated weather information not only enables insurers to better

understand the risks, but also to prepare for them. And preparation is key. Insurers should be gearing up if they know a significant weather event is on its way and make sure they have a high number of staff available to help on the ground and in call centres. Supply chains should be doing the same.

Surge events put every aspect of claims handling to the test so we as an industry need to make sure we learn from past experiences – both good and bad – and ensure that there is a process of continuous improvement in place. The aftermath of storms Desmond, Eva and Frank formed the greatest hurdle for property insurers in recent times, as insurers and their supply chain were left with the significant costs and challenges caused by the floods, with an estimated 15,000 property claims costing around £1.3 billion.

We saw:

- 3,600 families helped into alternative accommodation
- emergency payments of £21 million to homeowners and £49 million to businesses; and
- over 10,500 loss adjuster visits.

The difference in the industry's response to surge events from 2011 to today could not be starker. The ABI, insurers and BDMA members have really stepped up to the mark, which in turn, has changed the political climate in the aftermath of surge events.

The skill-set and technical knowledge required to provide this help and support and the very best solution is both substantial and varied so significant levels of training and experience form an essential part of being able to provide a tailored response to the customer. Which is why so many insurers want to work with those who have the training and accreditation to deliver industry best practice and look to those who hold the BDMA Insurance Technician qualification and to those who have made the investment to attend BDMA training events. The ABI will continue to work with the BDMA, CILA, the CII and others to promote best practice, professional standards and cross-sector collaboration for the benefit of our respective memberships and their customers.

Priorities for 2018

I thought it might be useful to spend a couple of minutes setting out the ABI's property policy priorities for 2018.

Flooding and natural catastrophe

For many years, the ABI has led the industry's approach to both responding to major flood events but also to ensuring that there is a sustainable, long-term model for flood insurance. Thinking about what was to become Flood Re was in its infancy when I last spoke at this event but its establishment is perhaps the most transformational project that the ABI has led over recent years. And in delivering on the objective of improving the long-term availability of affordable flood insurance, the insurance industry has made a hugely important contribution to one of the biggest public policy challenges of recent years.

But Flood Re is not a solution to the problem of flooding and flood risk. There are an estimated two million homes in England that are at risk of river or coastal flooding, with an additional 2.4 million homes at risk of surface water flooding. The number properties at risk is only increasing in the context of climate change and the limited Government investment in flood defence infrastructure. When you combine that with the fact that Flood Re has a limited lifespan of 25 years expiring in 2039, more needs to be done now to think about what a risk reflective flood insurance market looks like for the next generation. A key challenge will

be how we can win the argument with customers on the importance of resilient repairs and wider resistance measures. I don't have the answers, but we need to work with our partners at Flood Re and in Government to ensure that, in the context of other policy priorities and short term political thinking, the flood insurance challenge of the future is not forgotten.

Escape of water

Escape of Water claims continue to be the most consistently expensive peril for domestic property insurers. In the past three years claims costs increased by a third meaning this has now become a key strategic priority for the industry. The ABI has been completing a consultation exercise with loss adjusters and damage management companies to understand whether there are any policy interventions that the ABI can advocate for to combat this rapidly increasing and costly problem. And it is a problem that in some senses results from the housing crisis. As the price of homes increase, when combined with the cost of stamp duty, it makes staying put and investing in your current home an attractive proposition.

This has driven a dramatic increase in the amount of water flowing around a property in increasingly complex plumbing systems: from more plumbed-in appliances in the home; more properties with central heating; and more ensuite bathrooms and downstairs toilets.

This doesn't just mean more claims, more expensive claims resulting from:

- Hidden or integrated pipework which means leaks aren't immediately discovered, increasing overall damage;
- The construction methods and materials in modern homes are less resilient to damage, for example, higher spec kitchens, more laminate flooring and more media equipment built into walls and ceilings;
- Some insurers are concerned around unnecessary strip out and removal of items

Many of these we can't do much about but changes in the way many of you manage claims will help. Communication between various supply chain professionals, damage management firms, insurers and the customer is key. And it is incumbent on all those involved in the claims and restoration chain to work with insurers to improve understanding of stubbornly high Escape of Water costs. Your networks must continue to work with our members to consider where customer outcomes can be improved and the recent trend of increasing costs can be reversed.

Fire

I spoke about flooding and escape of water when I joined your conference in 2011 but what I did not touch on were fire claims which remain a significant concern, especially for commercial property insurers. In 2016, insurers paid out £1.25 billion in fire claims.

Last year was the 350th year anniversary of the Great Fire of London and it was a great honour for me to be invited by the Worshipful Company of Firefighters to deliver the Annual Fire Lecture. In that speech, I questioned whether, in the 21st Century, we still had lessons to learn from a major fire event that took place in 1600s. I reiterated the industry's call for improved property-level measures to protect the most vulnerable in society from the dangers of fire and I questioned the historic approach to building control which focussed on deregulation rather than a risk-based and proportionate regulatory framework.

The horrific events Grenfell have changed everything. Understandably and rightly, there are numerous Government reviews into what happened, and the insurance industry will have an important contribution to make to that work. But the fact is that Grenfell represents a systemic failure of the entire building control system and that failure tragically manifested

itself in West London in June this year. The lessons of Grenfell simply must be learned and action needs to be taken to ensure something similar can never happen again.

Insurers want to see:

- A counteracting of the increased level of combustible material in building design and construction and an improvement in the robustness of the building control testing regime on the performance of building materials;
- Improved mandatory passive and active fire protection measures; and
- A detailed review and assessment of the understanding and clarification of roles and responsibilities of all those involved in the fire safety of a building.

As an industry, we need to play our part in ensuring that decision makers have the detailed, technical information available to make informed policy decisions. So we have commissioned research into the fire performance of external cladding systems, the use of automatic sprinkler systems in high-rise residential buildings and the potential for high-integrity alarm systems to improve detection, response and evacuation. Again, working in partnership with Government to make a difference and improve the built environment in which we operate.

Conclusion

In conclusion, three things I want to leave you with. Firstly, a thank you. Thank you on behalf of the insurance industry for the front line work that you do with our customers to help them get their lives back on track after they have been forced to make a claim. Secondly, a challenge. Don't think that good is good enough. Be sure to continuously improve your customer communication and engagement so that we have more satisfied customers and the reputation of our industry can continue to improve. And thirdly, a promise. A promise that the ABI will continue to be outward looking, value the partnership we have with the BDMA and work with you on matters of mutual interest.

And finally let's not leave it another six years before I come back to see you again.

Thank you.