



### Research into long-term contracts for home insurance

- **Customers generally have significant reservations about the attraction of long-term contracts and are, on balance, not ready for them.**
- **While they see that the concept has advantages, they are concerned that the disadvantages may outweigh the benefits. This means customers see the product as risky - there is little to 'pull' them towards the product.**
- **In addition, as most customers are not unhappy with the status quo and even those who have been flooded can generally find insurance (often with their current insurer), there is little 'push' to move them towards long-term contracts.**
- **Even if this were to change, there is clearly a need for customer information and education on how long-term contracts would work. The research revealed significant confusion and uncertainty on the part of customers; long-term contracts are relatively more complex than traditional home insurance contracts and entering into one is a more significant decision than is the case with one-year contracts.**

*Report from: Andrew Irving Associates*

#### Summary

This research involved qualitative customer research looking at how customers reacted to the concept of long-term contracts for home insurance. At present, the vast majority of home insurance contracts are for one-year, with the customer either renewing or switching product or insurer when the contract term expires.

Long-term contracts may have the potential to improve the management of flood risk by providing incentives for the insurer to invest in flood-resilient (or resistant) measures that reduce the probability and impact of future flood incidents. By linking the customer to the insurer for several years, the insurer (as well as the customer) will be able to benefit from the investment.

This research is designed to complement work conducted by the ABI (see ABI Research Paper 21) and consisted of in-depth face-to-face interviews with 24 customers who had either previously flooded or are aware that they are at risk of flooding.

#### *Perceived advantages of long-term contracts*

Customers were generally open to considering the idea of long-term contracts and were willing to seriously consider the pros and cons of the product. The main benefits they identified were:

- The benefit of not having to deal with home insurance each year. This appealed to those who saw home insurance policies as a commodity product with little difference between insurers.
- The benefit of knowing that they were covered for a number of years. This was particularly attractive to those who had been flooded in the past.
- The benefit of being able to budget given their expectation that premiums would be fixed (albeit increasing in line with some index).

### *Perceived disadvantages of long-term contracts*

While the benefits summarised above were significant and attractive, customers felt the disadvantages – or potential disadvantages – outweighed the advantages:

- Long-term contracts would restrict choice and the ability to 'vote with your feet'. Customers were concerned, for example, that if they did have to make a claim and had a bad customer service experience they would still be stuck with that insurer.
- Customers thought that signing up to a long-term contract may mean they would miss the opportunity to benefit if prices in the market fell or there were improvements and innovations to home insurance contracts.
- A big disadvantage was the relative complexity of the product and the fact that the decision to buy a long-term contract would affect the customer for years to come (in contrast to months, with a standard annual contract). This made the decision a big deal and customers understandably would want significant reassurance on how the contract would work. In particular, under what circumstances and at what cost they could exit the contract, and what impact making a claim would have on the contract and on premiums.

### *Linking resilient / resistant investment to the long-term contract*

Customers could see the logic of an insurer using long-term contracts as a mechanism for sponsoring investment in resistant or resilient measures and then recovering those funds. And while they recognised this offered potential benefits, they saw this as having limited appeal:

- Customers were often wary about whether resistant / resilient measures would actually work – there was concern (backed up in some cases with first or second-hand experience) that the measures would fail, leaving customers no better off.
- Some customers have already put resilient / resistant measures in place.
- Some customers are willing to take the risk that they will not flood – particularly those who thought they would be moving home at some point.
- Linking the investment in resilient / resistant measures to an insurance contract did not necessarily seem an obvious thing to do and customers wondered if there were simpler or more cost effective ways of making the investment happen.

### *Contract length and price*

As noted, customers were not keen on the concept of long-term contracts. To the extent they would consider long-term contracts, their preference was for the contracts to be of a

relatively short duration – around five years. This was because of the uncertainties and perceived risks noted above and a general unwillingness to commit to a long-term contract where their own circumstances (e.g. moving home or losing a job) could change.

Despite the points above, customers understood that a large up-front investment in resilient or resistant measures would necessitate a lengthy contract to allow pay-back at a reasonable rate. Nevertheless, they were not keen on this in practice.

In terms of price, customers often discussed their expectation that long-term contracts would be cheaper than annual contracts as they would expect a loyalty discount for signing up for a long period of time.

Customers also brought up spontaneously the potential for having the contract linked to the property and saw advantages in terms of buying and selling homes. However, this was a novel measure and customers thought there might be difficulties. For example, it could mean that flood insurance would have to be dealt with separately but they were not sure what this meant for the other risks they faced. Generally, customers were wary of 'unbundling' flood risk from 'home insurance'.

## **Background**

During the summer of 2007, heavy rains led to insurers dealing with some 185,000 insurance claims – of which 130,000 were against domestic policies – and paying out total claims costs of around £3 billion.<sup>1</sup>

This is unlikely to be an isolated event. The Environment Agency estimates that around 5.2 million properties in England, or one in six properties, are currently at risk of flooding.<sup>2</sup>

This, in combination with the conclusion of the insurance industry's specific commitment to make flooding insurance available to the majority of existing customers (until June 2013) could have implications for those living in "high flood risk areas".

Home (buildings and/or contents) insurance is usually an annual contract that includes flood insurance. The insurance industry is now keen to explore the possibility of offering longer-term contracts for home insurance over, for example, three, five or ten years.

This is because in many cases, water-damaged domestic properties are reinstated in a 'like-for-like' manner. This means that, should these homes be subject to similar flooding again, the level of damage is likely to be similar to that in 2007. An alternative to 'like-for-like' reinstatement of homes is 'resilient' and/or 'resistant' reinstatement. This is where the home is reinstated in such a way as to minimise damage in the event of future flooding. However, this benefit would come at a significant additional cost. If this cost is paid by insurers, there would need to be a mechanism in place for insurers to recover that cost – otherwise the homeowner has the incentive to ask the insurer to pay for 'resilient' or 'resistant' measures and then simply change to another insurer before the original insurer's expenses are repaid. As a result, the focus of our research is on the 'flood' element of home insurance.

---

<sup>1</sup> ABI (2009), 'Latest flood costs' (see <http://www.abi.org.uk/Information/InsuranceAdvice/Consumers/General/15258.pdf>)

<sup>2</sup> Environment Agency: Flood and coastal risk management in England

Some of the perceived benefits of long-term contracts in this context include:

- Encouraging homeowners and insurers to invest in flood resilient or resistant measures, thereby helping to minimise damage from future flooding.
- Fixed premiums (increasing by an indexed amount) for the term of the contract could aid budgeting and take away the hassle and pressure of having to shop around each year. (Although initial premiums for a long-term contract may start out higher than for a one year contract).
- Peace of mind as customers would know that they have a guaranteed offer of insurance for a number of years rather than having to re-contract every year.
- Potentially, the long-term contract could be tied to the property rather than the customer. This would mean that a property could be sold with long-term flood insurance included - the policy would simply transfer to the new owners on the sale of the property. This could benefit both buyers and sellers of properties in high risk flood areas as this removes any uncertainty with respect to whether they can secure insurance on the property.

## **Method and Sample**

A qualitative approach was adopted in order to explore homeowners' reactions to long-term contracts and levels of interest in taking up long-term contracts if they were available.

Twenty four one-to-one depth interviews were conducted with the single or joint key decision maker(s) for buying home insurance and considered to be from the B,C1 or C2 social grade. All respondents were homeowners across areas that were affected during the floods of summer 2007; Gloucester, Tewkesbury, Hull, Yorkshire, Oxfordshire and Berkshire.

In addition, we sought to include within the sample:

- A mix of those who had renewed/switched their home insurance policy in the last two years.
- Some who had recently moved to their current home (i.e. within the last two years).
- Some who were looking to move out of their current home in the near future (i.e. in the next two years).
- For those who had experienced flooding, we recruited a mix of those who had made one or more home insurance claims as a result of flooding, including a few respondents who had been evacuated as a result of flooding.
- For those who had not experienced flooding, we recruited people who were at risk, and knew they were at risk, of flooding.

Table 1 provides a summary of the research sample.

**Table 1 Agreed sample structure: 24 face-to-face one-to-one depth interviews**

Face-to-Face Depths	Total	Pre/Young Family	Older/Post Family
Experienced flooding	12	6	6
At risk of flooding	12	6	6
<b>TOTAL DEPTHS</b>	<b>24</b>	<b>12</b>	<b>12</b>

**Note:** Those 'at risk of flooding' had to acknowledge at recruitment that their property was at high risk of future flooding. However, as findings indicated, acknowledging that they were at high risk of future flooding did not necessarily translate into concern about this and some were happy to take the chance that their property would not flood again in the future.

## Contextual factors influencing reactions to long-term contracts

The research took place during a period of financial uncertainty (November 2009). The recession has forced customers to rein in spending and generally be more cautious with their money. Likewise, product performance is currently regarded as unpredictable in the current financial climate. As a result, there may be a general apprehension about being tied in to products, providers and payments.

Several key contextual factors were identified as having an impact on levels of interest in long-term contracts. These included:

- Experiences of the 2007 floods: whether their home flooded or not and the cause and severity of any flooding;
- Awareness and perceptions of their flood risk;
- Measures/action taken to prevent or minimise future flood damage;
- Attitude towards being flooded in the future;
- Impact of flooding on home insurance purchase experiences and perceptions.

### *Experiences of the 2007 floods*

#### *Those who flooded*

All our respondents who had made a flood-claim had done so as a result of the summer floods of 2007. Some flooded as a direct result of rivers bursting their banks, whilst others were affected by excess surface water flows.

Those living on (the edge of) river banks typically suffered the most severe flooding. These respondents recalled the entire ground floor of their home being under several feet of water. There were reports of water having entered their home not just through the typical entry points such as doors, air bricks, etc., but also up through the floor and toilet and seeping through from their neighbour's walls. Most were shocked at the speed and force with which water had entered their property and claimed to have had little chance to stop it.

Those who flooded as result of excess surface water in the area typically experienced less severe flooding. Generally, they had suffered just a few inches of water in their home and often the damage had been limited to one room or area of the house only. In other cases, homeowners had thought to block their doors with sandbags, but had not

considered other vulnerable areas such as air bricks or the porosity of walls and had still been flooded.

#### *Those who did not flood*

Many of the study's participants lived in the same street as someone who had flooded and so had witnessed first-hand the damage caused by flooding. These people tended to put their 'escape' down to luck (they had just got away with it) and the geography of the local area.

#### *Awareness and perceptions of their flood risk*

Those living in close proximity to rivers often had a history of flooding, having flooded on at least one occasion prior to the 2007 floods. Nevertheless, few could recall more than two occurrences of flooding in the area in their lifetime and there was widespread belief that the 2007 floods were the worst experienced.

"All the previous floods have been about 6-8 inches, it's expected, but the 2007 flood was worse than that but it has actually been stated that it was a flash-flood and a one-off incident." (Flood claim, female, over 45 yrs, Tewkesbury)

In contrast, there were others for whom this was the one and only time that their immediate area had been hit by flooding and they strongly believed it was caused by inadequate drainage systems and could have been prevented; many suggested the Council were ill-prepared. Consequently most looked to the Council first and foremost to take action to improve drainage systems and prevent future flooding.

"It makes me so annoyed. The Council always knew there was a possibility this could happen and they hadn't done anything to protect against it." (Flood risk, male, 45 yrs, Gloucester)

"We got straight on to the Council. They've been keeping us up to date with the work they've been doing and what they're planning to do next." (Flood claim, female, over 45 yrs, Berkshire)

There was evidence of confusion across the entire sample (whether or not they had flooded) at local Councils continuing to allow properties to be built on flood plains, thereby as far as they were concerned further exacerbating the problem.

"At one time there were lots of fields to absorb all the water. Now they've built a new estate over there. It's all concrete so the water just runs off it straight into our road." (Flood claim, female over 45 yrs, Berkshire)

#### *Measures taken to prevent flooding and minimise damage*

Those living on river banks often already had some preventative measures in place at the time of the 2007 floods. The most common measures included pumps in the cellar, airbrick covers, raised plug sockets, concrete or tiled floors and raised or free standing kitchen units. Many further reinforced their flood defences as a result of the 2007 floods

to include measures such as flood gates in doorways and bunds and soak away areas in their gardens.

"After the 2007 floods we've all got flood gates, pumps in our cellars and flood walls in front of our gardens so we're all belt-and-braces now."  
(Flood claim, female, over 45 yrs, Tewkesbury)

Measures were funded in different ways:

- As standard by their insurer during the reinstatement work (e.g. raised electrical sockets).
- Paying extra to upgrade what they previously had in place and cover the costs of the more expensive reinstatement measures (e.g. pumps in the cellar, upgraded kitchen to water resistant design, etc.).

"I decided that rather than going through having my kitchen ripped out again if we had another flood, I got a stainless steel kitchen put in, so that now I can just hose it down and [the insurer] came to a little deal with me over the cost." (Flood claim, female, over 45 yrs, Tewkesbury)

- A grant from the local council to contribute towards the cost of installing some preventative measures after the 2007 floods (for example, in Gloucester they received £500).
- Simply paid for the work out of their own pocket.

A few had also made their own provisions, "just in case". However, these measures were typically quite basic and included air brick covers and keeping an emergency supply of sand bags to hand. Others decided to replace previously carpeted floors with tiles and/or fitted kitchens with free standing units when the reinstatement work was undertaken.

In the main, respondents who had not flooded had not taken any action to minimise flood damage.

### *Outlook with regards to future flooding*

Universally, respondents believed that the 2007 floods were the worst to date. Furthermore, most were willing to believe that such severe flooding was unlikely to happen again; the summer 2007 floods are considered to be an extreme event, caused by a number of unusual factors.

Two distinct attitudes emerged with regards to respondents' general outlook on flood risk which we categorise as 'Worriers' and 'Gamblers'. These attitudes impacted on an individual's level of concern about future flooding and their willingness to protect themselves against future flooding.

- 'Worriers' were more concerned about their future flooding risk and were therefore more open to suggestions or potential methods to prevent it occurring.

"Just because I got away with it the first time, doesn't mean I would again. I've seen the devastation it caused and I don't want to go through that." (flood risk, male, under 45 yrs, Gloucester)

- 'Gamblers', on the other hand, were more willing to take the chance that having escaped flooding in 2007 (despite living in a high flood risk area) they would escape future flooding. In addition, those who flooded once in 2007 as a result of excess surface water flows believed their future risk was low; they were hopeful that their local Council had also addressed the underlying cause of the problem.

"I don't know, I mean where we were, it was a one off, it shouldn't happen again, it was just circumstances." (Flood claim, couple under 45 yrs, Tewkesbury)

"I'm not quite so concerned now, because as I understand it there's been some defences built further down the river which apparently are supposed to be working and we haven't had so much rain as we did in 2007." (Flood risk, female, under 45 yrs, Kidlington)

Those living in close proximity to rivers were the most accepting of the potential of future flooding. Nevertheless, they did not believe flooding was, or would become, a regular occurrence. Nor did they believe any future flooding would be as bad as that experienced in 2007. Furthermore, they felt better protected and equipped to deal with the damage if they had reinforced their flood defences after the 2007 floods.

### *Impact of flooding on home insurance purchase experiences*

Nearly all (whether they had claimed or not) of the study's participants were aware of some flood victims having experienced an increase in the price of their home insurance premiums and/or excess.

Those who had not made a claim had not experienced any changes in their policy and did not perceive it would be difficult or expensive to secure insurance on their current home.

"I didn't have any problem when I switched provider two months ago. They did ask if I had flooded, but I didn't so it wasn't an issue." (Flood risk, female, under 45 yrs, Tewkesbury)

Those who had made a claim, on the other hand, expressed a little more concern about the availability and cost of securing home insurance.

"During the big flood everybody was worried about the premiums going up and not being able to get any insurance at all anymore and it's quite a worry." (Flood claim, male, over 45 yrs, Oxfordshire)

Nevertheless, with the exception of one respondent in Sheffield who could not afford the revised premium her insurer had requested, nobody else who had flooded reported difficulty in getting home insurance.

Most participants still held insurance with the provider who dealt with their flood claim – largely because they felt they had been fairly treated in terms of the cost of their premium and changes to other terms and conditions, such as the excess:

"I don't look at other insurers because they've been so good to me in the past so I'm pretty loyal and they're quite reasonable having

compared after the flood.” (Flood claim, female, over 45 yrs, Tewkesbury)

“At the end of the day they sorted me out when we flooded so it’s only fair to stay with them as long as they offer me a good renewal price.” (Flood claim, male, over 45 yrs, Sheffield)

However, a few were aware of slightly higher than usual increases on their premiums year on year and were beginning to question if they should start shopping around, although admitted it might not be easy to find another insurer willing to offer them a better deal.

“It’s gone up since the floods but I would rather stick with what I know.” (Flood claim, male, over 45 yrs, Hull)

## **Reactions to the concept of long-term contracts**

### *Overall reaction*

The idea of long-term contracts with fixed price premiums was not alien to our respondents. A minority had already moved towards long-term deals and fixed monthly payments with energy providers. The primary reason to take up long-term contracts with their utility providers was the concern around ongoing price increases and the impact of this on household budgets. A secondary benefit identified was the benefit of not having to think about shopping around.

However, in the context of home insurance, overall reactions to the long-term contract concept were mixed. All respondents could identify certain benefits from taking up long-term contracts (for example, the convenience and peace of mind provided by such a product). However, our study’s participants felt that the barriers and outstanding concerns usually outweighed the benefits. Across the sample there were many uncertainties and unknowns. It was clear that customers needed guidance and education about how the products might work. This was impacting on their ability to make an informed decision about the desirability of long-term contracts. Key issues raised where customers required a greater understanding of how long-term contracts might work were:

- How premiums would compare to those charged on annual contracts and how premiums would be affected by any home insurance claims.
- How flexible providers would be (and how easy it would be to adjust policies) in the event of a change in circumstances – such as losing a job or moving home.
- How exit clauses and cancellation fees would work.

In addition, respondents’ views and experiences of resilient or resistant measures, their general views on having to search for and arrange insurance, and the possibility of future flooding (whether they were either ‘Gamblers’ or ‘Worriers’) also impacted on their interest in long-term contracts:

- For those with resistant measures already in place the appeal of long-term contracts was dependent on convenience and the benefits of not having to search for insurance and shop-around each year; they were also interested in discounted

premiums to account for the resilient or resistant measures they already had in place.

"I bought my house knowing it floods, that was my little gamble, so that is my responsibility but it would be a nice bonus that the insurance would recognise the things I've done to it" (Flood claim, female, over 45 yrs, Tewkesbury)

- For 'Gamblers' with no measures in place but who were willing to take a chance that they were unlikely to be affected by future flooding, the interest was currently muted; triggers to increased interest in long-term contracts included lower premiums than on the equivalent standard annual contract. In addition, the shorter the period of time they believed they were going to be in the property, the less likely they were willing to invest time and money in resilient or resistant measures.
- For 'Worriers' with no flood measures in place, the peace of mind of having guaranteed insurance (especially if they knew others who had struggled to get insurance after being flooded) was attractive, as, in some cases, was the protection offered by resistant or resilient measures. These 'Worriers' indicated they may be happier to pay a little bit more for a greater level of cover and protection if they did have to claim (i.e. further peace of mind).

### *Reactions to the perceived benefits of long-term contracts*

#### *Level of interest in a long-term contract*

Across the sample, regardless of their previous experience of flooding, spontaneously some of the key attractions of long-term contracts were identified as:

- Taking away the hassle of having to think about and deal with home insurance every year (and the associated time and paperwork). This benefit was identified by those more interested in convenience and time efficiency than saving money each year by shopping around for their insurance.
- Fixed premiums for the length of the contract would aid budgeting – a few acknowledged the benefits of having 'certainty' in an uncertain environment.

In addition, some other attractions of long-term contracts were based on expectations rather than knowledge about how the concept could work:

- The expectation that premiums would decrease over time as an incentive to encourage homeowners to make a long-term as well as reward their loyalty.
- The expectation that in a worst case scenario (i.e. those who were regularly flooded) repeat claims would be quicker and easier to deal with given familiarity with the insurer's claims processes.

Those who believed home insurance policies were fairly similar and saw no reason to shop around each year were more open to the idea of long-term contracts. They praised the fixed premiums and benefit of being able to 'forget about' their home insurance for a number of years. Furthermore, those who had made a flood claim and had noticed bigger

increases in their premiums year on year were reassured by the transparency that fixed price premiums offered.

“My premium has already gone up 100% in four years so if I could fix it and know what it was going to be for the next five years or so, that would be attractive” (Flood claim, female, over 45 yrs, Gloucester)

In contrast, the more price sensitive customers who valued the flexibility to shop around and switch provider for a better deal each year were more likely to reject the long-term contract concept.

It was difficult to identify whether a 5, 10 or 25 year contract would have most appeal if the product was to be made available. However, given the uncertainties expressed, the consensus was that shorter contracts were likely to be more attractive. It was clear that even for those who were more open to the long-term contract concept, the lack of clarity and reassurance with regards to premium structures and possible increases was a key barrier to entering into a longer-term contract.

“Well I think it’s a good idea on one hand and on the other hand you’re tied into a longer term contract, so could that give the insurer carte blanche to increase your home insurance by 50% or 100% every year.” (Flood risk, female, under 45 yrs, Kidlington)

The inability to envisage future needs or lifestyle was also a barrier to commit longer-term, especially for 10 or 25 years.

“I mean five years is a long time, but 25 years, who knows where we’ll be then.” (Flood risk, female, under 45 yrs, Kidlington)

A lack of confidence in the security and stability of financial providers in the current climate also impacted on willingness to commit to a long-term contract.

“Tying yourself in long-term could be quite a negative in times of recession as to whether that deal stays going, because if that company went bust.” (Flood claim, female, under 45 yrs, Tewkesbury)

From customers’ point of view, the key perceived benefit of signing up to a 25 year contract versus a shorter five year contract was the expectation that premiums would be more heavily discounted by way of an incentive to commit. Should this not be the case, customers would very likely question the benefit of committing longer-term.

Therefore, overall, customers appeared more comfortable with the shorter length contract, provided the premiums did not represent a significant increase over their current annual premiums. Most were more comfortable planning for five years and committing to this length of contract than looking much further beyond this.

That said, there were queries about how their claim ‘history’ would be treated after the life of the contract. For example, if they claimed during the life of a five year deal, would customers have this history wiped at the end of the five years. A few believed that current insurance meant they only had to declare any flood incidents that had occurred in the last five years. Consequently, they assumed they would have greater flexibility and

choice of home insurance once the five years were up. This was another reason 'shorter' long-term deals were preferred.

"It'd be interesting to know what happens after the contract's up. So, say five years down the line, do you start again? I guess that would be useful if you've had problems." (Flood risk, female, over 45 yrs, Sheffield)

Conversely, it was asked whether non-claimants would be able to carry their no-claims forward to their next contract as they would with annual contracts. Inability to do so would be a barrier to take-up versus annual contracts.

The idea of long-term contracts being tied to the mortgage was not fully understood. Many instinctively assumed this would mean they had to take their home insurance with the same provider as their mortgage which would not be the case. However, customers thought this would be the case and for most, this was felt to be limiting and raised questions as to what would happen if they wanted to switch mortgage provider or pay their mortgage off early.

*Guarantee of insurance for a number of years rather than having to re-contract every year*

There were some positive reactions to the peace of mind derived from having guaranteed insurance cover. However, the value and importance attached to this benefit was very much dependent on a respondent's level of concern about securing home insurance. Indeed, the peace of mind with regards to a guarantee of insurance was important for 'Worriers' with more experience of close friends and family who had struggled to get insurance cover after the 2007 floods.

"I sleep better at night knowing if anything happens I can just pick up the phone and it'll all be sorted." (Flood risk, male, over 45 yrs, Gloucester)

Those who had not been flooded or who were more blasé about the likelihood of flooding in the future did not believe it would be difficult or prohibitively expensive to secure insurance on their home. Consequently, this element of the proposed concept held less appeal.

The prospect of having guaranteed insurance cover resonated more greatly with those who had been flooded and saw themselves at risk of future flooding. However, the level of concern about home insurance being difficult or expensive to obtain (either now or in the future) remained relatively low because:

- They had not personally experienced any difficulty or had negative experiences in securing home insurance.
- They felt a degree of reassurance in the knowledge that their current insurer would not refuse to insure them.
- There was a belief that only flood incidents that had occurred within the last five years had to be declared.

In light of the aforementioned points, the appeal of this benefit was largely eroded.

Nevertheless, whilst the majority of our sample did not perceive a need for a guarantee of insurance, they could often see how they could indirectly benefit from long-term contracts if they had neighbours who were struggling to secure insurance.

“Two houses in the road can’t sell because they can’t get insurance, the road’s getting more shabby and the property values are dropping because of that, so it does have a knock-on effect.” (Flood claim, female, under 45 yrs, Tewkesbury)

They also acknowledged that the guarantee of insurance may well be a core benefit for friends and family who had experienced difficulty getting insurance as a result of the 2007 floods. It was suggested they ought to be key target audiences for any long-term contract product should it come to market.

#### *Investment in resilient and/or resistant measures*

Reactions to the theory were positive. All felt that it made sense to protect properties in flood risk areas. Furthermore, all were accepting of the fact that the insurer needs to recover the costs of the extra work (although there was an element of cynicism around insurers being fair and transparent).

“Well it makes sense if you do have flood damage and it’s going to be repaired that it’s repaired in a better way to reduce future damage doesn’t it.” (Flood risk, female, under 45 yrs, Kidlington)

“I do understand the point that if there wasn’t a long-term agreement in force the customer could then switch and the insurer doesn’t get the money back.” (Flood risk, female, under 45 yrs, Kidlington)

In practice, however, resistant and/or resilient measures only appealed to some. For many, the offer of funds or incentives towards investment in resistant or resilient measures was not a major selling point.

They questioned the credibility of the effectiveness of such measures in the event of flooding; some who had seen neighbours or personally experienced extreme flooding felt the measures would offer little in the way of protection or, in the case of water resistant plaster, only exacerbate the problem.

“All of us in my row [of houses] had water resistant plaster, but when the 2007 floods hit, it was a nightmare – all the water got trapped in the walls so now everybody has gone back to the traditional lime plaster walls which dry out” (Flood claim, female, over 45 yrs, Tewkesbury)

“When you’ve seen flooding like we have, you know there’s no stopping the water getting in. Our neighbours had about 4 feet of water in their home. It came through the walls, up the toilet – you can’t stop that. Plus, if it’s sewage water all the plaster needs to be stripped off anyway.” (Flood risk, couple, over 45 yrs, Tewkesbury)

- They were willing to take the chance that they would escape the impact of future flooding and therefore did not feel sufficiently worried to protect themselves

through resistant/resilient measures. They were reassured by one or more of the following:

- Both those who were flooded and those who were not did not expect any future flooding would be as severe as that experienced in 2007.
- If they had 'escaped' the 2007 floods, they hoped they were less at risk of future flooding.
- The Council had undertaken work to protect the area against flooding.

"I just feel if we was okay in 2007, why wouldn't we be okay next time. The council have taken steps to sort things too, so I'm inclined to think we'll be alright next time." (Flood risk, female, over 45 yrs, Sheffield)

"It won't happen again, not in the time we're here anyway." (Flood claim, female, over 45 yrs, Berkshire)

"They say it was a one in a hundred year freak flood, so I'm not expecting it again." (Flood claim, male, over 45 yrs, Hull)

- They did not value the measures sufficiently to warrant the cost. This was particularly the case amongst those who did not envisage themselves being in their property long term; the shorter the period of time they were to be in the property the lower they believed their risk of flooding was and they were therefore less willing to invest in resistant/resilient measures.

"I looked at flood gates after the first flood, but they're so expensive. I mean if I thought we were still going to be here in 20 years I might have considered them more seriously." (Flood claim, female, under 45 yrs, Berkshire)

However, there were a small minority (across both those who had and had not flooded) for whom the resistant/resilient measures held some appeal. This audience were 'Worriers' who were concerned about future flooding and did not have any resistant/resilient measures in place. The main reasons for not having installed resilient/resistant measures to date were typically due to:

- A lack of awareness of resistant/resilient measures they could have installed.
- Lack of urgency at addressing this issue now time had lapsed since the 2007 flood.
- The (often perceived as prohibitive) cost of installing such measures.

Those who had made a flood claim felt that had it been an option at the time of the reinstatement work being undertaken, they may have considered signing up to a long-term contract with their insurer in order to have resistant/resilient measures put in place. This audience agreed that their level of concern about future flooding was at a heightened level immediately after the floods in 2007. Indeed, some recalled having looked into more robust measures such as flood gates, but had generally been put off by the price. Therefore, the option to 'spread' the cost of these resistant/resilient measures over future insurance premiums could have provided them with a solution to this problem.

However, likely take up of long-term contracts for this audience would be highly dependent on the impact of the resilient/resistant work on the price of their future insurance premiums. Most could not imagine themselves paying a significant increase in their premiums as a result of having measures installed to save them and the insurer money in the case of future flooding. Most did imagine that to have minimal impact on the price of their monthly premiums they would have to agree to a much longer-term contract (i.e. 10 or 25 years, not five years) – and this level of commitment could then outweigh the benefits offered by the resistant/resilient measures.

It should also be noted that even the small minority who expressed some interest in insurance companies offering resilient/resistant measures raised some key concerns:

- Scepticism that they would be paying a premium for undertaking the resistant/resilient work through the insurance company's choice of builder (versus sourcing a local builder themselves to carry out the work independently of their insurance).
- Whether reassurances would be offered with regards to the effectiveness of the resistant/resilient measures.

#### *Impact of variations in timing and level of resilient and resistant measures*

Given concerns about future flooding are at their peak immediately post flood, customers admit level of interest in resistant/resilient measures is likely to be greater at this time. They also acknowledged that the other advantage to installing measures at this time is that more extensive measures can be undertaken at a time when reinstatement is already taking place, and the impact and upheaval is less acutely felt.

The idea of doing resistant/resilient work *before* flooding occurs (as a preventative measure) held little interest. In these circumstances it was hard to imagine being willing to put up with the disruption and inconvenience without an immediate need to have the work done.

In addition, the option of having more basic adjustments and installations prior to any flooding as a precautionary measure (e.g. moving plug sockets, laying tiled floors, air bricks installed) was seen as unlikely to have much worthwhile effect in the event of flooding. Many questioned how useful these measures would be and whether this was likely to be wasted money.

The idea of paying higher insurance premiums so that if the property floods the insurer would reinstate it in a way that would make future flood damage less severe, was not well received. Waiting for flooding to guard against further future flooding was hard to fathom and the benefits difficult to appreciate.

"I just don't see any appeal in that, why would you pay for something that might never happen?" (Flood risk, female, over 45 yrs, Hull)

#### *Reactions to the insurance being tied to the property versus the customer*

Reactions to the idea of flood risk properties being sold with long-term flood insurance included were positive in theory.

Indeed, many spontaneously suggested this should be the case and recognised the benefits this could present to sellers/buyers of flood risk properties, namely:

- Passing on a guarantee of insurance – alleviating a major obstacle to buying and selling property in flood risk areas.
- Increasing transparency about property history - giving the new buyer a 'picture' of recent flooding activity.
- Easing the whole buying/selling process – one less thing to sort out when purchasing a property.
- Potentially no cancellation fees when moving - assuming they are able to pass on the contract to the next owners.

"I think he would like to sell and he can't; if the insurance was tied with the house and was part of the package, he would be able to sell up and go – because there are people wanting to buy the properties but they just can't get insurance." (Flood claim, female, over 45 yrs, Tewkesbury)

"If I wanted to sell would insurance be a problem for me? That is a big concern." (Flood risk, female, under 45 yrs, Kidlington)

"It would be nice if it was transferable to the next owner; maybe if the insurance was done for the property rather than the owner of the property, that would be very good." (Flood claim, female, under 45 yrs, Sheffield)

However, the appeal was once again limited by a lack of understanding about how this would work in practice, with questions raised over:

- What would happen if the existing homeowners came to sell the property and the new owners did not want to take on the existing insurance policy:
  - There was a desire to have the option to cancel the insurance should the prospective new owner not wish to take up the contract.
  - There was concern that this would then force the seller to pay a cancellation fee (which again raised concerns about possible costs).
- There was also a question of what would happen if the new owners had different insurance needs and whether there would be an option to re-price the premiums and/or alter the level of cover.

A few were concerned that the potential benefits of their 'no claims' history might be lost if the contract was solely tied into the property, and wanted the option of carrying this over to another property (particularly if moving locally and/or remaining in a flood risk area), potentially as part of a deal if they stayed with the same provider.

"It'd be ideal if you could at least have your no claims recognised by the insurer if you moved. So, by staying with the insurer you keep that record. It's a pay off for staying with them when you're in the new property." (Flood risk, male, over 45 yrs, Banbury)

### *Unbundling the flood element of insurance from buildings and contents insurance*

Customers did not sufficiently understand how unbundling might work to recognise what the core benefits would be. Likewise, for those who rejected the overall concept, this element was fairly inconsequential.

Among those who were more open to the overall long-term contract concept, most felt unbundling the flood element would over-complicate home insurance and any potential claims process. Customers appeared to be more comfortable with 'inclusive' home insurance policies as opposed to optional add-on extras which were perceived to be too easy to be 'caught out' by when claiming i.e. thinking they were covered, only to find out they were not when they make a claim.

For most, there was logic that flood insurance would be tied to a building and therefore confusion as to how it could be unbundled from buildings insurance. Overall, respondents failed to see the benefit of unbundling the flood element. In addition, there were concerns it could end up very expensive if they needed to take a separate flood insurance policy.

That said, there was a general belief that if the insurance was tied to the property as opposed to the customer, it made sense to unbundle it, particularly from contents insurance which was specifically tailored to the customer.

"Yeah if you moved to an area that wasn't a flood risk you could just cancel your flood element, you wouldn't be tied in. So that's something you wouldn't want to be tied in." (Flood risk, female, over 45 yrs, Kidlington)

Overall, customers needed more guidance about what their unbundling options could be to help them to make a truly informed opinion about its potential.

### *Barriers to take up of long-term contracts*

It is clear, however, that the barriers to take up currently outweigh the benefits of take up. As with long-term contracts in other service areas (e.g. mobile phones or utilities), the key barrier to taking up long-term contracts were identified as concerns about entering into a long-term commitment:

- Restricting freedom of choice. This had implications both in terms of choice of provider, the premium, and the level of cover. This was more of a concern for the price sensitive who valued the flexibility to shop around for the best deal year-on-year or who simply wanted to keep track of potential market changes each year.
- Perceived inflexibility or difficulty of making changes to the policy at a later date. There were concerns about how responsive the provider would be if needs or circumstances changed.

Worries about being tied in were more acutely felt if customers were unsure about whether they were going to live in their property longer-term.

Broadly, there was a lack of understanding as to how the concept would work in reality. Customers were worried about the implications of getting themselves out of the contract

once they had signed up, and subsequently there was a lot of uncertainty which inhibited interest, including:

- The potential impact of having a bad claims experience – customers wanted to know whether they would be able to switch to another provider in these circumstances, and
- Worry about how exit clauses and associated charges would work:

“What if I want to move? Maybe this is naïve but I’d expect it to cost more for me to get out of a long-term deal. That’s how insurers do these things.” (Flood risk, male, over 45 yrs, Banbury)

Other barriers related to a perceived lack of need for the concept, due to:

- Not having personally experienced difficulty obtaining home insurance – although premiums may have risen due to flood claims - customers were not worried about finding insurance from year to year. Furthermore, all appeared well informed about the fact that their current insurer would not refuse to insure them.
- A lack of interest in the potential ‘return on investment’ offered by resistant and resilient measures. This was because respondents may have already had certain measures installed or they perceived the level of upheaval and associated cost to be prohibitive or potentially unnecessary. Some recalled having looked into more robust measures such as flood gates, but had generally been put off by the price. Concerns about the risk of a flood happening again had also decreased over time.

### *Key outstanding areas of confusion*

There was a high degree of uncertainty over how long-term contracts would work in practice, particularly with respect to:

- How fixed price premiums would work;
- How insurers would respond to a change in policyholder circumstances; and
- The impact of investment in resistant or resilient measures, and claims, on premiums and excesses.

### *Fixed premiums*

Key concerns included:

- What reassurances would be provided with regards to future changes in premium or excess levels? The lack of clear information about how increases would work was a concern, particularly if the customer was committing to buying insurance where the contract was very long-term.
- Would potential increases be capped? There were concerns that in the event of a flood claim, the premium could increase substantially, potentially to a point where the insurance policy is no longer affordable.
- Would premiums be re-priced according to the number of claims made or by type of claim made? There were concerns over the impact of claims made against other perils (for example, domestic burglary) on premiums. Related to this, there were

questions about which type of claim would likely have the biggest impact on premiums.

*How flexible will providers be to a change in policyholders' circumstances*

Key concerns included:

- Whether it would be possible to make changes to the level of cover or the length of the policy.
- What the impact would be of moving house. Customers were unsure whether they would be able to transfer the policy, should they wish to. (And this was further complicated if the new property was in a non-flood risk area.)
- There was fairly widespread concern about how exit clauses would work and whether this would involve early repayment charges.

*There were also questions about the resistant and resilient measures*

These included:

- If the homeowner already has some of these resistant/resilient measures in place, whether the policy and premiums would be tailored to accommodate this. Those with measures in place felt any 'fair' premiums would reflect this.
- Whether, if flood gates were not shut in time, this would invalidate the homeowner's claim.
- Whether resilient and resistant measures would actually work in practice.

There were also queries about what level of control homeowners would have over the installation of resilient or resistant measures, both in terms of:

- The level of involvement customers would have in deciding which building company undertakes the work.
- Similarly, whether customers would have any choice in which measures were put in place.

**Authors:** Hayley Connolly (Associate Director), Ian Sparham (Director), and Julie Walker (Research Manager), Andrew Irving Associates

Any queries about this report should be directed to [hayley.connolly@aiaresearch.co.uk](mailto:hayley.connolly@aiaresearch.co.uk), telephone +44 (0)20 7160 0207. Alternatively, queries about this report or other information available from the ABI can be directed to the Research Helpdesk at [research@abi.org.uk](mailto:research@abi.org.uk), telephone +44 (0)20 7216 7390.