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Clive Betts MP
Chair of Levelling Up, Housing and Communities Select Committee
House of Commons
London, SW1A 0AA

8 March 2022

Dear Mr Betts

I would like to thank you again for the opportunity to give evidence to the Select Committee's inquiry on Building Safety in February. Further to the ABI's written submission, I committed to write and provide more detail on the insurance industry's experience of claims since the Grenfell tragedy. I hope this information is useful to the Committee's ongoing work and I would be happy to discuss in more detail if that would be useful.

You have asked us to explain how, since Grenfell, the level of pay-outs for fire safety claims in medium and high-rise buildings has changed year-on-year, and how that compares to the increases in premiums for buildings insurance for medium and high-rise buildings year-on-year. The ABI does not collect data specifically for high-rise buildings so we are unable to directly answer the question you have posed. As I mentioned during the evidence session, collecting the data needed on these buildings has been a very difficult task for DLUHC, the FCA and ABI to obtain. However, we are able to provide some data on commercial fire claims, case studies of recent fires in high-risk buildings, some further information on large losses, and an overview of UK property underwriting results, which hopefully provides an overall picture for commercial and domestic property insurance claims across the market.

We have seen over a decade of badly built building stock, developed under a regulatory framework that an independent Government Inquiry found was 'not fit for purpose'. The insurance industry has lost confidence in the current framework – hence the importance of the Building Safety Bill - and the devastating Grenfell fire, and the near misses seen with fires in Barking, Manchester, and East London where crises were narrowly averted, further highlight the wider building safety defects. While the number of fires overall may have decreased, insurers have seen a threefold increase in the severity and damage caused by fires over the last ten years.

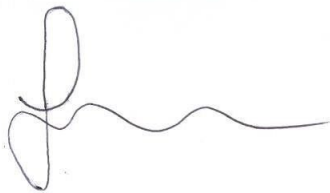
The industry sympathise with all leaseholders affected by the current Building Safety crisis, and we are committed to working with the FCA and the Government to look at options that could support leaseholders living in high rise residential buildings with dangerous cladding or wider fire safety defects some of whom have seen significant increases in the cost of insurance. We are working with the FCA to collect data to support their review of the building insurance market, requested by the Secretary of State in January, the results of which should help to provide some more detailed answers to your question. In January, the Building Safety Minister wrote to the industry to request that we look into a risk pooling option for high rise residential buildings. We are working closely with Lord Greenhalgh, DLUHC, brokers and re-

insurers to assess what interventions could help reduce risk and premiums for leaseholders and I look forward to updating the Committee in due course.

It should be noted that, while the options being considered in discussion with the market and the Government should all complement each other, there is no silver bullet solution to the issue of increased buildings insurance premiums for high-risk residential buildings and, ultimately, some form of Government intervention may be required to provide cover for those buildings at the highest risk. It is also important to recognise that, due to the significantly changed market and wider economic conditions, no market or Government led intervention is likely to return buildings insurance to pre-Grenfell levels.

If you have any questions or would like to discuss the content of the letter in more detail please do not hesitate to contact me. I look forward to continuing to work with you and the Committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Dalton', with a long horizontal flourish extending to the right.

James Dalton
Director of General Insurance Policy

Request from LUHC Committee

The Committee has asked us to explain how, since Grenfell, the level of pay-outs for fire safety claims in medium and high-rise buildings has changed year-on-year, and how that compares to the increases in premiums for buildings insurance for medium and high-rise buildings year-on-year.

Challenges with Data

The ABI does not collect data relating to the height of buildings, cost of claims of specific types of buildings, nor any detail on the premiums paid for specific buildings.

Data on high rise and medium rise buildings affected by fire safety issues and increases in premiums has been difficult for DLUHC, the FCA and ABI to obtain so far. The FCA's review is an important step, as we believe it will enable the FCA, through the exercise of its regulatory powers, to obtain a detailed data collection which should include both claims and premiums associated with these problem buildings.

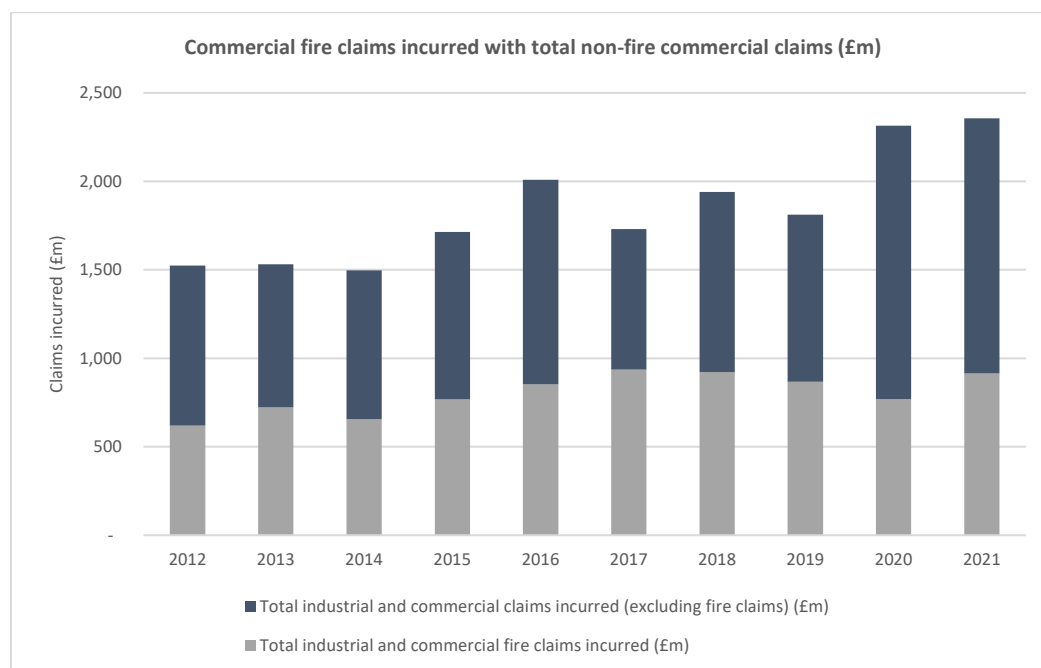
The ABI can however provide detail on:

1. Data on the cost of commercial fire claims (which will include blocks of flats), number of claims and average cost of claims over a ten-year period.
2. Details of the underwriting result of the property insurance industry by year in the UK.
3. Large losses and ten case study examples of high-risk building fires that have occurred in recent years.

Further information on this is below:

- 1. Commercial Fire Claims and the average cost of commercial, domestic and total fire claims over a ten year period.**

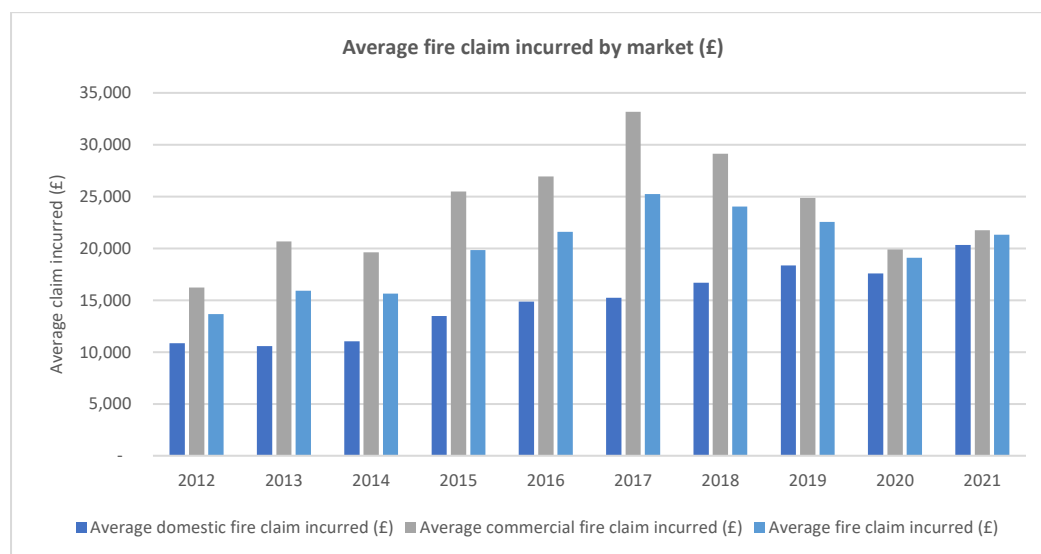
The ABI does not collect any fire data related to only high-rise or mid-rise buildings.



This chart shows that fire-related claims costs make up a significant proportion of the total industrial and commercial claims incurred for UK insurers.

For example, in 2021 the total cost of commercial and industrial claims was £2356m, with 38% (£915m) being made up of fire claims. In 2017, the total cost of commercial and industrial claims was £1730m, with 54% (£936m) being made up of fire claims.

Note: High rise residential buildings are insured under one buildings insurance policy and are therefore classified by insurers as a commercial claim. All other commercial property, from warehouses to hairdressers are also included within this category.

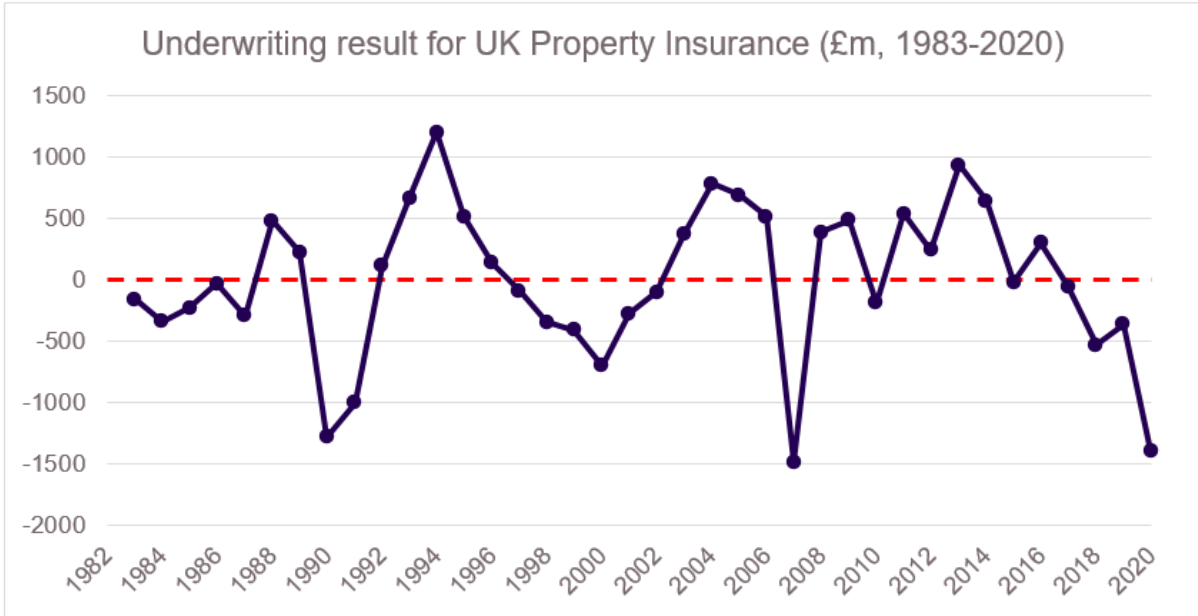


The graph above shows the average cost of fire claims over the last ten years.

2. Underwriting Result for Property Insurance (£M)

In 2020, although the industry wrote its highest level of gross written premiums since ABI records began, increasing 4.0% to £11.5bn, there were further increases in the amount being ceded to reinsurers, which rose from £4bn to £4.4bn, leading to a smaller increase in net premiums. Additionally, there was a substantial increase in gross claims incurred at the total level from £5.8bn to £8.0bn, which greatly contributed to the level of underwriting loss experienced.

Overall, property insurers saw an underwriting loss (premium income received less claims paid) of £1.396bn in 2020. This was the largest underwriting loss seen since 2007.



3. Examples of recent large losses due to fire [REDACTED - COMMERCIALY SENSITIVE]
