

Legislation Committee No.1

Response to the consultation on the Proposed Domestic Fire Safety (Wales) Measure

Association of British Insurers (ABI)

Introduction

The ABI is the voice of the UK's insurance, investment and long-term savings industry. It has over 300 members, which together account for around 90% of premiums in the UK domestic market.

The UK insurance industry is the third largest in the world and the largest in Europe, helping individuals and businesses protect themselves against the everyday risks they face. It pays out over £230 million per day in pension and life insurance benefits and over £50 million per day in general insurance claims. The industry is an important contributor to the UK's economy: it manages investments of £1.5 trillion, over 20% of the UK's total net worth; employs more than 300,000 people in the UK alone; is the fourth highest contributor of corporation tax; and is a major exporter, with one-fifth of its net premium income coming from overseas business.

2. Comment

The objective of the Welsh Assembly's proposal is to reduce the number of deaths and injuries caused by fire. The ABI agrees that domestic sprinklers are likely to reduce the number of deaths and injuries caused by fire and we fully support this objective.

Insurers are also concerned with the economic cost of fire and paying claims resulting from fire, both from household and business customers: in 2008 the insured cost of fires was £1.3bn. Commercial fire damage cost £865 million and fire damage to homes cost £408 million. In addition, business interruption following fires results in insurance claims of around £200m per year.

Insurers are particularly concerned about the current cost of fire claims and we have set out our concerns and our proposals to reduce the number and cost of fires in our paper *Tackling Fire: A Call for Action*, available at:

http://www.abi.org.uk/Publications/ABI_Publications_Tackling_Fire_A_call_for_action_bfa.aspx

Insurers encourage the installation of sprinklers in commercial buildings and may offer premium reductions to businesses and schools that install them. However,

because home insurance premiums are generally much lower than business premiums, the scope for offering discounts to home owners that install sprinklers are much more limited. Flood and theft claims account for more of the total household insurance claims cost than fire. One insurer estimates that fire equates to around 7.5% of the buildings and 7% of the contents premiums.

Even if we assume that the successful operation of sprinklers halves the cost of fires, this would only result in a reduction in premium of 3 or 4%, or £10 on a £300 premium.

However, insurers are concerned that the installation of sprinklers may increase claims in other areas. Insurers are very concerned about the increasing number of claims from “escape of water” they are facing, possibly as a result of more en-suite bathrooms being installed in houses and greater use of things like dishwashers. There may also be a number of claims arising from sprinklers going off accidentally, although we do not collect data specifically on this.

Insurers are therefore concerned that sprinklers are installed and maintained by competent people and that the sprinkler system is properly explained to the homeowner. Ideally sprinklers should be fitted by firms that are accredited by an independent third party organisation. There will also have to be a sufficient water pressure maintained if the sprinklers are to function properly.

Conclusion

The introduction of sprinklers in new homes in Wales is likely to achieve its objective of reducing the number of fire deaths and injuries, However, its impact on insurance premiums will only become clear over a period of time. There is likely to be a positive impact on the number and cost of fire claims but this may be offset by a negative impact on the number and cost of escape of water claims.