

I Cavity Wall Insulation- “Mind the Gap”

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AGENDA – C.W.I

- Introduction
- Background or “ How we got here !”
- Drivers for the Current Market Situation
- What are the Implications/Consequences from a Underwriting perspective
- As an Industry what do we do Next ?
- How do we Future Proof our Portfolios?
- Questions?





C.W.I - Intro



- CWI concept is very simple ,the space between an inner and an outer wall is designed to stop rainwater reaching the inside of the property. These cavities also allow heat to escape and by filling the gap between these two layers, it is possible to prevent heat from escaping.
- With the need to reduce carbon emissions, there have been plenty of UK Government initiatives that offered homeowners the chance to improve home energy efficiency levels.
- The National Insulation Association ('NIA') estimates that 33% of a property's heat is lost through the walls and as most modern homes in the UK are built with cavity walls, the potential for insulation (and energy saving) is huge.
- It is claimed by the NIA that a well-insulated loft can save as much as £150 on fuel bills over a year, whilst cavity wall insulation can save a further £150 in the same period for an average sized house.
- The above culminated in a frenzy of activity as Energy Suppliers/Contractors/Homeowners took advantage of the funding available



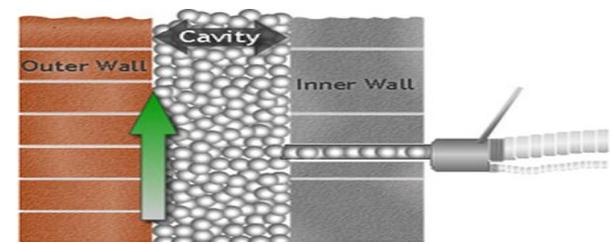
C.W.I - Intro



- The majority of cavity wall insulation over the past 10 years or so was sold by
 - 'door steppers'- door-to-door canvassers pushing the low cost (free to some) installation.
 - Incentives from Energy Providers
 - Major Advertising Campaigns.
- Retro fit Cavity wall insulation is normally installed by drilling a small hole in the property's outer wall. A pump is then used to fill the gaps with a polyurethane insulating foam/ beads/mineral fibre .
- In theory, it sounds simple but due, in some cases, to poor workmanship or unsuitable installation, potentially problems can arise. For those of us in the insurance industry, it should come as no surprise that cavity wall insulation compensation claims are fast becoming a “thorn in our side” as we have been here before
- With daily media scare stories plus the sheer volume of CMC's /Claimant Solicitors looking for a share of the potential action , Insurers potentially faces huge losses as claims for mis-sold cavity wall insulation/defective workmanship - and the “Noise” increasing on a monthly basis.



C.W.I - How we got here!

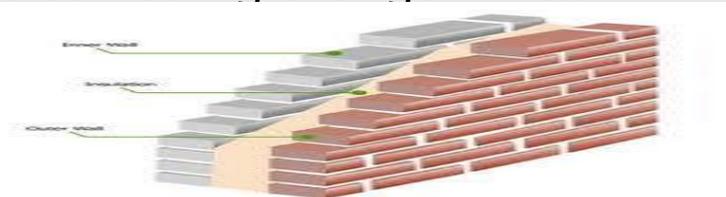


- The purpose of Building Cavity Walls initially was a way of reducing damp as the outer wall acted as a barrier to rain leaving the inner wall dry due to the cavity barrier
- Cavity Wall construction methods have been around since the end of the 19th Century as the Construction industry sort ways to improve the energy efficiency of homes and by 1960 this was the most common method of PDH construction
- “Filling the Gap” As we approached the 1970’s this was when Retrofit CWI started to become increasingly popular driven by:
 - The Fuel Crisis of 1974
 - Relatively cheap cost of installation against promised savings
 - Social/Local Authority Housing
- Post 70’s boom- late 70’s early 80’s demand dropped off due to concerns over interalialia health concerns, damage to Homes and quality/capability of the Installers. It was estimated over 1M homes were fitted with Urea Formaldehyde Foam CWI
- Early to mid 80’s little or no new CWI but new technology allegedly significantly improved the whole experience and it started to pick up again from 87 onwards



C.W.I - HOW WE GOT HERE!

- 90's – change in Building Regs all new homes etc with Cavity Wall Construction must have CWI installed as they are being constructed
- In order to enhance the reputation of both the product and Installer the Industry created CIGA – a Guarantee Agency which both set standards and guaranteed the performance of CWI
- As part of the achieving EU Carbon Emission Targets- UK Government embarked on a number of initiatives including the “Green Deal” virtually forcing Suppliers to offer Homeowners incentives to improve Energy Efficiency including Retrofit
- This was the “New Dawn” for Retrofit CWI and it would appear that a significant volume of the work undertaken has allegedly caused “damage” The incentives were very appealing to both Consumers & Installers. So good, in fact, that cavity wall insulation became something of a” gold rush”.





C.W.I - HOW WE GOT HERE!

- As in the 1970's allegedly there was a large numbers of inexperienced and/or untrained contractors /surveyors installing insulation on properties across the country.
- We are now facing a potential legacy of incorrectly installed insulation in houses across the country. Some Commentators on the potential scale of this issue estimate that up to 4 million homes potentially have a CWI issue
- The allegations range from Mould/Damp/Condensation Damage to the Buildings through to Bodily Injury as a result of these unhealthy conditions





C.W.I - DRIVERS FOR CURRENT MARKET SITUATION

- CIGA – 6 million homes under Guarantee and has assets of £13m – you do the math's!
- PPI & Travel claims - The game is up (or nearly) and new opportunities being sought/talked up by CMC etc
- Allegedly CWI Installation undertaken unnecessarily – Unsuitable Buildings etc
- DECC avoiding recognition of the issue – (Politically Motivated?)
- Potential fraudulent behavior
- Installation firms trying to avoid responsibility and going into Liquidation
- Genuine concerns of Householders with regard to the potential consequences
- Social Media/ National Press – scaremongering/fanning the flames (ulterior motives?)

The great cavity wall calamity: 1.5 million homes are blighted by damp after cowboy builders cash in on a Government insulation drive

- Millions of homeowners persuaded to sign up to scheme with promise of cheaper bills by call-centre staff and salesman trying to meet targets
- The Government scheme was meant to make homes energy efficient
- But experts claim homes were not suitable for cavity wall insulation
- Victims left with houses riddled with damp and mould from botched fittings





C.W.I -IMPLICATIONS/CONSEQUENCES

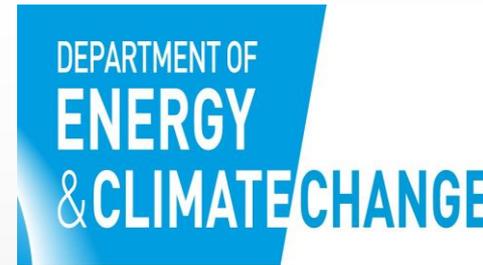


- Potential Avalanche of Claims - Axa in a recent presentation in Manchester confirmed that their Claims numbers relating to PL CWI had increased from 100 to 1300
- Significant impact on Prior Years Reserves
- Differences in opinion as to Date of Loss/Damage as the vast majority of PL pols are written on a “Occurrence Basis”
- Which Insurer deals with the loss – especially given the Damage may have occurred over a period of years
- Apportionment of any potential loss is problematical as a result of the problem above
- Is the CWI Installer still Trading? -Third Rights Against Insurers Act implications
- Limitation
- Allegations of Fraud including the behavior of “Claims Farmers”



C.W.I -CONSEQUENCES /IMPLICATIONS

- Causation – Defective Workmanship /Property Maintenance/Unsuitable Property etc
- Other Interests
 - CIGA
 - DECC
- Claimants expectations
 - In the vast majority of claims the major cost is around the removal/ rectification of the CWI
 - This isn't covered by a standard PL/Prods/Contractors PL wording
 - Proving Subsequent Bodily Injury/Damage to TPP will be time consuming/potentially costly
 - Claimants must find the Contractor allegedly responsible (if they are still trading)





CWI - WHAT DO WE AS AN INDUSTRY NEED TO DO NEXT

- My Views
 - Im convinced the only way forward is to work in collaboration Insurers/ Brokers/CIGA/DECC
 - The purpose of this would be to try and agree a consensus vis :
 - When the Property was damaged
 - Standard methodology in assessing potential Legal Liability
 - How costs will be apportioned





CWI - WHAT DO WE AS AN INDUSTRY NEED TO DO NEXT

- Agree a consensus with regard to Fraudulent Claims working with the IFB
- Agree a Panel of Industry Experts as part of an overall robust attitude to defending claims/speeding up payments on any genuine claims





CWI - UNDERWRITING ACTION TO HELP FUTUREPROOF/DEFEND

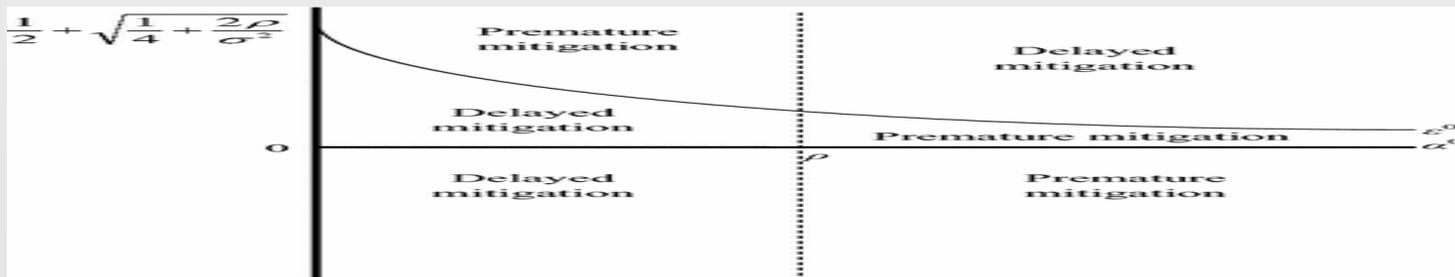
- You may view this a” shutting the stable door post the horse going missing”
- Any Insurer with a Casualty Construction Portfolio has a potential exposure
- This is my view of how I see my Company behaving possibly with regard to Contractors in this Sector(if they are still trading)
 - Change the Occurrence Trigger from Occurrence to Claims Made
 - Retro Date – the Next Renewal Date
 - High Deductible- TPPD





CWI - UNDERWRITING ACTION TO HELP FUTUREPROOF/DEFEND

- Whilst this will not stop the claims it will
 - Enable us to close the Book at the end of each Policy Period
 - Remove any doubt vis Occurrence/manifestation so long as the work was undertaken post the Retro date
 - Ensure that the LOI is current and protects the Insured especially if it written as part of a Products Agg Limit
 - Achieve a current technical price for the risk
 - Purchase the correct level of Reinsurance
 - Sensibly Plan without the impact of IBNR on the Current Year



| Any Questions ?

THANK YOU

