

# ADVISER

## GRENPELL TOWER FIRE: RISK MANAGEMENT AND INSURANCE IMPLICATIONS

On 14 June 2017, a fire broke out at Grenfell Tower – a 24-storey residential housing block in North London. With 80 people dead or presumed dead – a number that emergency services expect to increase – the incident appears set to be one of the worst fires in British history.

Already, it is becoming clear that this dreadful event will have wide-ranging impacts in terms of the way fire safety is managed in the UK, and how buildings are designed and maintained. Most of these impacts will affect high-rise residential buildings in the first instance, although in the coming weeks we expect concerns over combustible cladding and fire safety will also affect hospitals, hotels, cinemas, shopping centres, and many other types of building.

### ISSUES FOR CLIENTS

#### LOCAL AUTHORITIES AND REGISTERED SOCIAL LANDLORDS

Since the Grenfell Tower fire, all local authorities and registered social landlords (RSLs) have been under pressure to urgently carry out fire safety checks on tower blocks and ensure that the appropriate safety measures are in place.

In some instances, similar cladding to that used on Grenfell Tower has been found, leading to the testing of samples and, in some circumstances, the removal of the material and rehousing tenants and leaseholders.

The Department for Communities and Local Government (DCLG) has requested that local authorities and RSLs identify and record the number of properties above 18 metres high, including whether any panels used in new build or refurbishment are a particular type of cladding made of aluminium composite material (ACM).

#### SCHOOLS AND NHS HOSPITALS

Subsequently, it has been identified that ACM is also likely to have been used in the construction of schools and NHS hospitals. These organisations are now also making the same enquires where they have buildings with a height exceeding 18 metres.

### REMOVAL OF CLADDING AND OTHER INCURRED COSTS – ARE YOU INSURED?

The circumstances at Grenfell Tower have dramatically raised awareness of the issue of composite cladding in building construction. Insurers have many years' experience in underwriting these types of risks.

Feedback from insurers to date suggests that they will not seek to withdraw or change coverage for existing clients where cladding is present. Whether this commitment extends beyond the expiration of the current policy remains to be seen.

In most cases, insurers will not meet the cost of replacing building cladding which, on inspection, is found to be high-risk; building insurance policies are generally contracts of reinstatement, therefore, there must be an occurrence of insured damage before the policy responds to indemnify the insured. There may be some scope within more modern policy wordings, which will pay certain costs above those strictly related to reinstatement, but again damage must have occurred in order to trigger the policy. Most policies will provide that, following damage, reinstatement can be carried out using more appropriate materials, subject to the insured value.

Some insurance policies may include extensions that are designed to respond to loss of rent or alternative accommodation for tenants in the event that the relocation of the tenants is required during remedial works. This will depend on the specific policy wording applicable to the insured party.

## MARKET IMPACT

The market for standalone assets with high-risk cladding was already limited before the Grenfell Tower fire. We are experiencing a further constriction in the number of insurers willing to underwrite new risks with composite cladding panels that are non-Loss Prevention Certification (LPC) approved. To some extent, the availability of cover will be driven by the economies of scale afforded to the client; clients with large portfolios may be largely isolated from this. The same may not be true of owners of small portfolios or single assets.

Insurers' premium rating for this type of construction is already significantly higher than for other construction types. We expect this trend to continue as underwriting appetites reduce.

## MARKET PERSPECTIVE

Several insurers have participation in the local authority and RSL market, and therefore have exposures to high-rise buildings across their portfolios.

In response to the Grenfell Tower fire, insurers are already asking existing clients to provide additional information regarding their high-rise buildings, specifically:

- A copy of the return made in response to information requested by the DCLG.
- The number and location of each high-rise building (exceeding 18 metres) the council either owns or is responsible for.
- Confirmation of whether they are clad in composite panels or similar.
- Confirmation of the type of cladding used (including fill material and brand name).
- Confirmation of any buildings where sprinkler systems are fitted.
- If available, information with regards to who was the main contractor/sub-contractor employed to complete the work and when this was carried out.

## RECOMMENDATIONS

Below, we recommend some simple steps for anyone with responsibility for any significant building, particularly those with residential elements that house large numbers of people:

### 1. CONSIDER THE LEVEL OF PUBLIC LIABILITY/PROPERTY OWNERS' LIABILITY COVERAGE YOU PURCHASE.

The Grenfell Tower fire highlights the potential for multiple injuries and deaths to occur in a single incident, and most policies provide a limit of liability on a "single occurrence" or "single event" basis. An event such as the Grenfell Tower fire could well test the adequacy of traditionally purchased policy limits.

Historically, many local authorities have taken the decision to insure their older high-rise housing for demolition only, on the basis they would not reinstate in the event of a total loss. Given that recent reports have estimated the Grenfell loss to be around GBP50 million, some authorities are revisiting their decision making to address the potential costs of contingency response and long-term housing needs.

### 2. REVIEW THE BUILDING FIRE RISK ASSESSMENT AND ENSURE IT HAS BEEN UPDATED WITHIN THE LAST YEAR, CERTAINLY SINCE THE LAST TIME ANY SIGNIFICANT CHANGES WERE MADE.

While cladding was clearly a factor in the fire at Grenfell Tower, so too was the failure of fire risk assessment and building regulations to identify this and other problems with fire safety in the building.

- Ensure you are confident that the assessor was competent, and the assessment is "suitable and sufficient".

- Make sure all findings are understood and outstanding actions completed.
- Review fire evacuation and emergency plans to ensure they are still valid. Carefully consider whether "remain-in-place" plans are still viable.
- Ensure all fire safety equipment and systems are inspected and maintained, and that they were properly designed in the first place.
- Relevant findings **must** be communicated to residents and other key stakeholders. Risk assessments have little value if the required actions are not communicated. In addition to tenants themselves, you will need to involve residents' associations, managing agents, letting agents, and potentially many other parties.

Specific guidance around fire risks assessment can be found in the Local Government Association guidance document – "Fire Safety in Purpose Built Blocks" <https://www.local.gov.uk/fire-safety-purpose-built-flats>.

### 3. LOOK AT BUILDING CONSTRUCTION, MATERIALS, AND FIRE SYSTEMS ACROSS ALL PROPERTIES.

- Compile a list of residential properties exceeding 18 metres for particular focus.
- Check the construction of existing buildings, including cladding systems and fire compartmentation.
- Construction and refurbishment contracts should be stopped until you are confident that fire-safe materials and designs are specified.
- Consider the installation of automatic sprinkler systems in buildings.
- If you already have sprinklers, review their design basis and maintenance.

4. REASSESS YOUR EMERGENCY AND CRISIS RESPONSE PLANNING.

- Consider the full range of scenarios you might need to deal with, including fire, flood, extreme weather, riot, utility failure, etc.
- Have a detailed but practical plan of what you need to do, and the connections you will need with other businesses and agencies.

5. ENSURE YOUR ORGANISATION HAS INSURANCE THAT IS PREPARED AND ABLE TO RESPOND IN THE EVENT OF A MAJOR INCIDENT.

Before a loss has occurred, risk, insurance, and claims managers should carry out appropriate steps to prepare for the unexpected:

- **Test insurance coverage, identifying any limitations or gaps.**

Confirm and clarify the interpretation of insurance coverage and test how different policies will interact with each other, checking that there are no gaps in cover. You should also identify any implications for disclosure requirements.

- **Identify the “claims actors” and develop relationships.**

Meet with all loss adjusters, lawyers, and other relevant parties, and identify who you will need to engage with, when you would need to speak to them, and what information you would need in the event of a loss.

- **Develop claims protocols.**

Consider the steps required post loss, such as engaging with external experts and developing internal claims protocols.

There are several areas that Marsh can help clients with in the coming months. For more information, please contact your Marsh representative.



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