



# EMERGING RISKS HOUSING UPDATE 2022

With new risks emerging in the way we operate, interact and engage within the Social Housing sector, it is vital that we evolve our knowledge, understanding and skills to protect against these potential threats.

There are a number of pressures on the Social Housing sector and within this bulletin, we will focus on issues that have become more present this year. To prepare for risks which may lie ahead, take a look at some of the articles we have produced.

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# 01. PREVENTING FRAUD IN THE SOCIAL HOUSING SECTORS

Preventing or responding to financial crime and fraud can be complex, time-consuming and costly.

Arun Chauhan from Tenet Compliance & Litigation recently held a fraud awareness training for Gallagher clients in the Social Housing sector, and he predicts that fraud is on the rise. Arun shares some advice and guidance on how you can prevent fraud in your organisation.

## The perfect storm

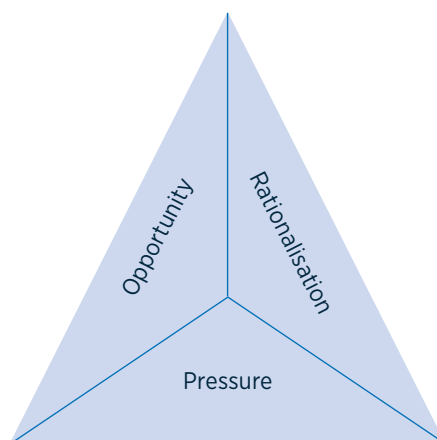
During the COVID-19 pandemic, we were all forced to live more of our lives digitally. Advances in technology have been accelerated by the pandemic, which on the one hand is good news in the fight against fraud, but also provides more opportunities for fraud to take place. The traditional fraud triangle cites i) opportunity, ii) pressure and iii) rationalisation as the three main factors leading somebody to commit fraud.

Given the current economic climate, with inflation at a 40-year high and the cost of living increasing at a rapid rate, many people are facing increasing financial pressure.

According to the Office for National Statistics, 89% of adults in Great Britain reported an increase in their cost of living in July 2022.<sup>1</sup> This means a lot of people are going to be facing a squeeze on their personal finances, and this can lead people to make poor decisions or take drastic steps to redress the balance.

With the perfect storm of increased pressure and opportunity for fraud, what can those in the Social Housing sector do to protect themselves and their organisation from fraud, and what are the red flags to look out for?

## The Fraud Triangle



## Internal threat: Employee fraud


With many of us feeling the pinch, and lots of employees still working from home, there is a high risk of fraud from within. The most likely candidates for committing fraud are employees who have some degree of autonomy and interaction at some stage of the organisation's financial processing, or where they are aware of a lack of segregation of duties on checks and processes that they can manipulate. Here are some key factors in preventing such fraud:

- **Know your employees**—it sounds obvious but getting to know your employees and understanding the pressures facing them may identify any areas of concern.
- **Develop open channels of communication**—low morale and a fear of reprisal for raising issues create a culture where fraud can flourish.

<sup>1</sup><https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/articles/whatactionsarepeopletakingbecauseoftherisingcostofliving/2022-08-05>







Housing associations are particularly vulnerable to fraud. The most common type of fraud affecting the sector is tenancy fraud. However, the sector is not immune to other types of fraud.

- **Ensure regular reviews of control frameworks**—covering all functions within the business, particularly, finance and IT functions.

Employee fraud is costly both financially and emotionally. It can also destroy hard-earned reputations and prove to be a significant drain on your time. Pro-actively managing fraud by providing training, and promoting awareness of it within your organisation, can significantly reduce your exposure.

## External threat: Cyber-attack

Housing associations are particularly vulnerable to fraud. The most common type of fraud affecting the sector is tenancy fraud. However, the sector is not immune to other types of fraud including cyber fraud.

The gateway for cyber criminals to steal personal or commercial data, launch a ransomware attack or authorised push payment fraud is, more often than not, an email communication, which may contain a manipulated link.

They often appear to have come from legitimate sources, such as governmental organisations, known suppliers and even senior members of your own staff. Cyber criminals know that an organisation's weakest point is the human beings that work within it. Therefore, employee training and raising awareness of relevant and recent scams is again fundamental in the fight against fraud. Here are some red flags to look out for:

- Phishing emails may come from an unusual email address, or an address very similar to one well-known to you (e.g. with one letter changed, or an additional letter).
- The language may be poor with spelling or grammatical errors.
- There may be a link which you will be invited to open.
- The sender may express a reluctance to communicate in any way other than email.

- A request to change bank details or the details of a particular payment is a huge red flag. Double-check what you are being told by speaking with your known contact by telephone (using a telephone number already known to you).

Any link received in this way must not be opened and we advise the following actions:

- Notify your IT services provider or internal IT department immediately.
- Block the sender and delete the email.
- Notify others within your organisation as there may have been multiple emails sent in the hope that one slips under the radar.
- Ensure firewalls and other IT security measures are in place and up-to-date.

**These are just a couple of common types of fraud affecting the Social Housing sector. To find out more about how to manage fraud risks, please speak to your Gallagher representative.**

## 02. PROPERTY VALUATIONS – UNDER AND OVER INSURANCE IN THE SOCIAL HOUSING SECTOR

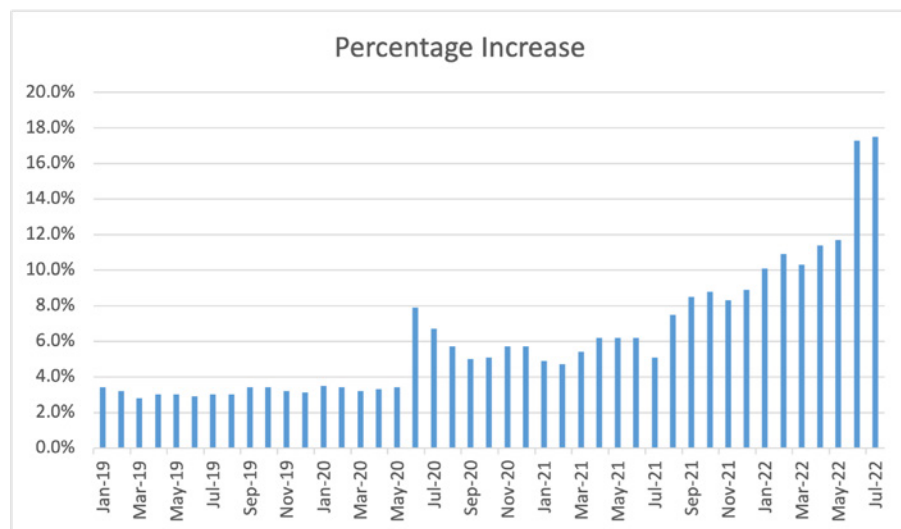
As an insurance consultant, we have always advised our Social Housing clients to undertake regular valuations of their properties to ensure the rebuild values are sufficient and they are not at risk of being under- or over-insured.

This approach is supported by the Building Cost Information Service (BCIS) who recommend rebuilding costs are checked at least every five years. One of the biggest risks for a Social Housing provider is being underinsured as this could result in insurers paying the sum insured declared, not the actual value of the rebuild. This leaves the organisation to pay any shortfall, which could be a substantial unexpected cost.

There are a number of other impacts of underinsurance, including:

- Increased borrowing
- Negative impact on the balance sheet
- Complex negotiations with insurers
- Discontented leaseholders and Social Housing tenants
- Extended rebuild times

In between your valuations, it is standard practice to increase your sums insured in line with the House Rebuilding Cost Index. This is a percentage calculated by BCIS based on the average cost of labour, materials and professional fees, and is applied to your sums insured to reduce your exposure to being underinsured. For many years this figure was in the region of 3-4%.



However, this has increased by almost 600% in the last three years and there is now a possibility that some housing associations could be over-insured and paying more for their property insurance than they need to.

### Increase in Index Linking

Since the start of the pandemic, there has been a global increase in the cost of materials and labour, which saw the index linking figures rise from 3% in July 2019 to 6.7% in July 2020. As the impact of the pandemic started to ease, index linking started to drop again, getting as low as 4.7% in February 2021. However, the continued global impact and shortage of materials meant it began to rise again and by October 2021 it was up to 8.8%.

In addition to the increase in materials and labour costs, the House Rebuilding Cost Index now takes into consideration an allowance for Building Regulations Parts L, F, O and S. These are:

- **Part L**—Conservation of Fuel and Power
- **Part F**—Ventilation
- **Part O**—Overheating
- **Part S**—Infrastructure for the charging of electric vehicles

These amendments to the Building Regulations 2010 took effect in June 2022 and the introduction of these costs has seen the index linking figures rise dramatically in the last couple of months. The latest figures from BCIS have been released for August 2022 at 19.0%.<sup>2</sup> What's the impact?

<sup>2</sup><https://www.rics.org/uk/products/data-products/insurance/bcis-house-rebuilding-cost-index/>

### What's the impact?

Most insurers will require your sums insured to be index linked in line with the current BCIS figure to avoid underinsurance. This means your property insurance premium could instantly increase by 17.5%, regardless of any agreements, you have in place with your insurer, and before you take into account any growth in your property portfolio.

### How can a valuation help?

As well as ensuring you are not underinsured, a valuation can also ensure you are not over-insured.

The BCIS rate is calculated on the average cost of rebuilding across the country, so it doesn't take into consideration the labour and material costs in your region, which could be higher or lower than the average. It also applies a blanket allowance for the changes in the Building Regulations 2010, Parts L, F, O and S on your properties, again not taking into account the specific costs and requirements in your area.

A valuation ensures that you have the right sum insured for your Social Housing properties, taking into account all of the specifics relating to your buildings and their location.

By undertaking a valuation you can be sure that your sums insured are correct in the event of a claim and you are not paying more premium than is necessary.

### Do you need a valuation?

Please speak to your Gallagher representative if you would like assistance with a valuation. We work in partnership with reputable and experienced organisations who can undertake property valuations for insurance purposes.

## 03. INTRODUCING THE RISK MANAGEMENT PORTAL FOR SOCIAL HOUSING

We know that running a Social Housing organisation is challenging, particularly with regards to managing risk and keeping up-to-date with new laws, compliance directives and regulations. Having access to the Gallagher Housing Risk Management Portal gives you easy access to advice and support to help you manage a wide range of risks and ensuring you stay informed.

The **Health & Safety Area** is designed to keep you up to speed on all aspects of your Health & Safety portfolio and features an easy-to-use and comprehensive Self-Assessment checklist. The assessment will take you step by step through your current Health & Safety arrangements and provide you with a list of outstanding actions and the means to address them.

The **Human Resources Area** will provide you with access to information and processes concerning employment matters, written in a style that avoids legalistic jargon without losing its essence. You'll find many useful tips, directions and downloads that will help you focus on the issues that you need to address, to ensure you have a comprehensive, robust HR regime.

The **Business Continuity Area** encompasses the management processes that identify potential threats that could impact your ability to continue providing services to your customer, and the actions needed to ensure your association is prepared in the event of a major disruption.

The **Driving Risk Area** will allow you to keep up to date with occupational road risk (ORR) issues, or pick up useful advice covering a range of topics, from corporate manslaughter to your vehicles' carbon footprint.

The **eLearning Area** provides access to a comprehensive range of fully accredited eLearning courses, ensuring staff has practical information to effectively deal with health and safety issues. All courses are available online, 24/7, whether your staff are in the office or working remotely.

The Risk Management Portal for Social Housing is a great tool for any organisation looking for additional support to ensure you are up-to-date on legal, regulatory and compliance matters. It is easy to use and gives you access to impartial advice from risks management specialists whenever you need it.

## 04. EMERGING FIRE RISK — ELECTRIC SCOOTERS

With a big focus on climate control and a push to zero carbon, the use of electric devices and vehicles is understandable becoming more common.

As a result, there has been a significant rise over the last two years in the use of electric scooters, with people buying their own personal scooters or alternatively using those provided under local schemes, including those available from local councils for short-term hire.

### **What causes electric scooters to catch fire?**

Similar to the rise in fires that occurred due to poor-quality phone chargers, electric scooters pose this same risk.

The number of fires from electric scooters has trebled in the last three years and the Gallagher claims team has managed several fires this year caused by the battery packs being used to charge them.

The most significant claim occurred at a Housing Association property very recently and, to date, has a loss value in excess of £200,000.

Electric scooter batteries are normally made from nickel-cadmium, nickel-metal hydride, and lead-acid. This is because they are lightweight, relatively affordable and can last for more extended periods between charges.

However, these batteries can fail resulting in a fire. There are several reasons a battery can fail, including:

- Poor quality, construction and design
- Physical damage
- Overcharging
- Exposure to high or low temperatures

With this in mind, here are some simple steps to help prevent the risk of electrical fire when charging a scooter:

- Always use genuine manufacturer chargers
- Do not charge overnight
- Do not overload plug sockets
- Regularly check for worn or frayed wires

- Unplug the charger when not in use
- Keep the charger clean and in good working order
- Fully unwind extension cables prior to using them

E-Scooters are a fun and efficient way to get around quickly without damaging the environment, so their popularity is likely to continue. It is therefore important to take measures to ensure that they are stored and charged safely to prevent these fires from occurring in the future.

**If you would like to know more about fire safety guidance for electric scooters, please visit the [National Fire Chiefs Council](#).**

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## 05. CYBER LIABILITY — ARE YOU PREPARED?

Every other day it seems like another high-profile cyber-attack is being reported in the news, and this is no different for the Housing Sector.

Between 2015 to 2017 just 12 cyber-related claims were reported by our Social Housing customers. From 2017 to 2019, we saw this increase to 36 losses, and from 2019 to 2021 this jumped to 129 claims reported, which is an increase of over 250% in just two years.<sup>3</sup>

The cost of cyber losses can be staggering, with many settling in the millions. Based on a large loss that we managed in early 2020, the claimant received c.£9200 in awards and legal costs,<sup>4</sup> using this figure as an example, you can imagine how quickly a group action claim could spiral.

As a result, we are seeing a huge rise in requirements for higher limits of indemnity to ensure organisations have adequate protection. However, with a global rise in cyber losses many insurers are looking to reduce their capacity and cap the limits of indemnity offered to clients, particularly where policy holders cannot demonstrate adequate cybersecurity.

### What makes a good cyber risk?

Insurers are demanding more detailed information about how cyber risks are managed and requiring organisations to have minimum security standards in place before offering cover.

The most basic measures insurers are looking for in order to demonstrate cybersecurity include:

- Multi-Factor Authentication (MFA) on all external gateways
- Re-Authentication every 24 hours for remote access users
- Instant response to security patches
- Deploying critical updates within 14 days
- Back up data placed in cold storage away from the main servers for the business
- End-of-life software in place which is segregated from the network

- Frequent internal and external penetration testing

Aside from system and IT security, insurers are also keen to see that employee behaviour around Cyber Risks is proactively managed. A number of things that will positively enhance your risk include:

- Cyber Awareness Training for Staff
- Phishing Simulations
- Cyber Essentials Plus Accreditation

Even if you have the best security infrastructure, this does not guarantee that you will not become a victim of a cyber breach, and there will always be a very significant risk of human error. However, by demonstrating good security measures are in place, and regular training is being undertaken to raise awareness of cyber breaches, you are much more likely to achieve the limits of indemnity you require, with a price that reflects your needs at renewal.

<sup>3</sup>Claims received by Gallagher Social Housing between 01/01/2015 and 01/09/2022

<sup>4</sup>Claim received by Gallagher Social Housing in March 2020



## Be ready to take action

Incident Response Planning is something all Housing providers should consider. However, many organisations mainly focus on events that may prevent access to their premises.

A recent example of this was the outbreak of the global COVID-19 pandemic which led to many organisations referring to their Incident Response Plans. Many found that the analysis carried out to develop their Incident Response Plans was extremely useful, even if specific continuity strategies for responding to a pandemic had not been considered.

However as the landscape of risk changes in the Housing Sector it is clear that you must consider how your plan will respond in the event of a cyber-attack. Should the worst happen, it's essential there is a set of processes and instructions in place that allow management to respond as quickly and efficiently as possible.

An effective way of ensuring you are prepared to respond to a cyber breach is by undertaking a Breath Response Simulation. This exercise uses key employees to partake in a table-top simulation in which they will plot out how they would respond to a real-world incident. The group will likely include representation from the Executive Team, People Managers, Customer Contact Teams and IT Managers, and will fully test your Cyber Incident Response Plan.

An efficient and effective response to a cyber breach can hugely reduce the impact on your organisation and your customers.



## How can we help?

We want to help you face the future with confidence by:

- Helping to ensure you have the right measures in place to secure renewal terms
- Aiding you with reducing the likelihood of a breach
- Giving you the tools to help get back up and running with minimal damage

Our Gallagher Cyber Risk Management (CRM) Team **offer a complimentary 30-minute cyber consultation** during which they investigate your external security to show you what hackers could be seeing right now and discuss issues and concerns identified.

Our Gallagher Cyber team has also developed a solution '**Cyber Assist**' which can put you in an optimal position to obtain the insurance protection to meet your need at an acceptable cost. It will also help you to fully understand your data/cyber risks and the effectiveness of your existing controls, as well as identifying changes you need to make to improve your resilience.

To help you plan your response to a cyber breach, the CRM team can review and create incident response processes for a wide range of potential incidents, including malware infection, phishing emails successfully exploiting a vulnerable target and many more. From simple checklists to detailed playbooks, they can create bespoke solutions based on your previous experiences and what we think you're most likely to face in the future.

The CRM Team also offers a host of other services to assist with managing the risk of a cyber breach:

- Cyber Essentials Implementation and Accreditation
- IASME Implementation and Accreditation
- ISO 27001 – Readiness and Implementation
- Penetration Testing
- Cyber Security Awareness Training
- Vulnerability Scanning
- Phishing Simulation





## 06. THE EFFECTS OF SUBSIDENCE — WHAT YOU NEED TO KNOW

Subsidence can be a costly and time-consuming problem, with early discovery and pro-active handling being a critical defence.

The record-breaking temperatures of Summer 2022 were welcomed by many who didn't need to fly abroad to enjoy days of endless sunshine. However, such long dry spells left many areas of the UK in drought and the dry land has caused an increase in subsidence, particularly in areas of clay soil.

Subsidence involves the downward movement of ground beneath the foundations of a property other than by natural settlement or construction. Incidents can occur when trees draw too much moisture from the soil beneath the property and cause it to sink. Following the hot summer in 2018 we experienced a significant increase in claims and due to the temperatures again this summer we anticipate there may be a similar increase again.

Subsidence is a costly and time-consuming problem, with preventative measures as well as early discovery and pro-active handling being a critical defence. Following the hot summer, Gallagher strongly recommends that you take the time to have a look inside and outside of your properties when undertaking your usual inspections.

If you identify any newly appeared cracking, which is fresh and bright in appearance, and if this tends to step through brick work, being wider at the top than the bottom, then don't take a chance, notify us, or your current insurer, so the specialists can act quickly and provide advice.

### Signs of subsidence

- Diagonal cracking, tapering in width, wider at the top
- Cracking usually located around the window and door openings/weakness in the structure
- Cracks extending down to ground level
- Rucking of wallpaper in corners
- Sticking doors and windows
- Distortions to window and door frames
- Rotational cracking at junctions of added structures, extensions
- Seasonal opening and closing of cracks

This is particularly important if there is any tree within 5-10 metres of the damage and you are in an area of clay soil. Clay minerals attract and absorb water, so the more clay the soil contains, the greater potential there is for subsidence as the soil dries and shrinks.

This type of soil is in 'packets' across the country, but the key areas are:

- London
- South East
- South West
- East Midlands
- Yorkshire
- Humberside

## Buildings and structures most likely to be affected by subsidence

- Older properties with shallower foundations, such as Victorian and Edwardian homes
- Bay windows or garages are usually constructed on shallower foundations
- Additions on shallower foundations, Porches, extensions and conservatories
- Properties where trees have been planted since construction and grown to mature trees over the years

## Preventing subsidence

This is notoriously difficult, particularly where there is the mixed blessing of a hot summer. However, we recommend:

- Making sure that any trees or shrubs are planted at a safe distance from properties, especially in clay soils
- Regular pruning of trees
- Keeping any drainage system well maintained
- Use your expertise—remember you can be found liable for subsidence damage to a third-party property if you fail to manage your trees and the Court will expect you to know.
- Use technology—your inspectors can use camera phones to photograph or video potential damage to allow for faster reporting and management, and remote crack monitoring.

### Would you like to talk?

For more information, please contact:

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