

Information Note - Flood Re

The Association of British Insurers (ABI) and the Government negotiated a Statement of Principles that was completed in July 2008. The principles discuss a long term approach to flood risk and insurance. Paragraph 4 of that statement is reproduced below:

“The ABI and the Government have agreed to work together to provide a long-term solution that will enable flood insurance to continue to be as widely available as possible without distorting the market. To achieve this, we have identified the following measures that must be taken:

- . improve our understanding of flood risk through assessing both the probability and consequences of flooding from all sources including surface water;*
- . put in place a long-term strategy to reduce flood risk; set out the Government’s short, medium and long term strategic flood prevention aims; assess funding needs; and ensure effective and prioritised allocation of resources and delivery over the medium and long term in line with future Government spending rounds;*
- . ensure that the planning system prevents inappropriate development in flood risk areas, and that any essential new development in high flood-risk areas is flood resistant and/or resilient;*
- . raise awareness in areas where flood risks are significant, encourage actions to mitigate and minimise the risks and costs of being flooded; and provide information about how to obtain flood insurance; and*
- . promote access to insurance for low-income households.”*

The Statement of Principles expired in June 2013. Without another solution in place, estimates from the ABI suggested that at least 200,000 properties would have struggled to obtain affordable cover.

In June 2013 Government announced the future for flood insurance and the position of the insurance market after July 2013. The government agreed a way forward with the ABI that focuses on delivering the ABI's proposed 'Flood Re' insurance approach for high risk households across the UK in a way that minimises additional costs for other policyholders. Flood Re secures affordable insurance for many of those most at risk by placing a limit on flood insurance premiums. The Flood Re pool will be funded through a new industry-backed levy that all UK household insurers will have to contribute to, thereby creating a fund that can be used to pay claims for people in high-risk homes.

The Flood Re scheme aims to:

- . Enable flood cover to be affordable for those households at highest risk of flooding;
- . Increase availability and choice of insurers for customers;
- . Create a transitional measure to allow flood insurance to move towards risk-reflective pricing within 25 years; and
- . Create a level playing field for new entrants and existing insurers in the UK home insurance market.

Government consulted on the proposals to secure the future availability and affordability of home insurance in areas of flood risk from 27 June to 8 August 2013. Government's response was issued on 18 November 2013^[1]. Government's policy objectives were supported by the majority of respondents and there was strong support for the proposed approach to address the availability and affordability of flood insurance without placing an undue burden on other policy holders and taxpayers. Many respondents also emphasised the importance of continued investment by Government in flood risk management to ensure affordable insurance, and of preventing inappropriate development in the floodplain.

In February 2016 The First Flood Re Transition Plan^[2] was published, which outlines how it is intended to manage the transition to a market with risk-reflective pricing. For the first 5 years, a levy will be raised from all insurers writing home insurance in the UK amounting to £180 million per year. This fund enables Flood Re to purchase reinsurance and build up a surplus of funds during average years so that it can withstand large loss events. If this fund is not sufficient to meet requirements in any given year, Flood Re also has the ability to issue a compulsory call for additional funding from the industry.

Flood Re ensures that the cost of reinsurance (the Inwards Reinsurance Premium paid by insurers to Flood Re) will be available at a fixed rate (the Premium Threshold) for each policy, according to the council tax band associated with the property.

Over time, the need for the levy will be phased out so that 100% of Flood Re's income comes from the Inwards Reinsurance Premiums (as determined by the level of the Premium Thresholds and the number of policies ceded to Flood Re). The reduction in the levy revenue is offset by reduced costs of providing flood insurance and, as such, Premium Thresholds are allowed to remain constant in real terms over time.

Flood Re has now become fully operational since early April 2016.

The future availability of flood insurance within the UK will be heavily dependent upon commitment from the government to reduce the risk of flooding over time, particularly given the anticipated impacts of climate change. Investment is required in flood defence and improving the capacity of sewage and drainage infrastructure. It is also essential to ensure that spatial planning decisions do not place property within areas at risk of flooding.

^[1] Government response to the public consultation on securing the future availability and affordability of home insurance in areas of flood risk - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259362/flood-insurance-sum-resp.pdf

^[2] The First Flood Re Transition Plan, (February 2016)