HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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Household flood insurance: Flood Re

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Summary

This briefing paper sets out the general system in place in the UK to manage the challenges to providing affordable household flood insurance – the Flood Re scheme.

What Flood Re is

Flood Re is a re-insurance scheme that began operation in 2016. It allows insurance companies to pool the potential costs of the higher risk to many properties by paying a special levy.

Because Flood Re is a re-insurance scheme, it works with insurers rather than customers.

The eligibility rules for Flood Re are however sometimes complex. The scheme excludes commercial properties as well as certain leasehold properties. It also generally excludes buildings constructed since 2009. This is to help dissuade developers from building on land at risk of flooding.

Flood Re is due to end in 2039. By that time it aims to have paved the way to a free-market approach in which policy prices reflect risk.

How it came about

There had been earlier agreements between the Government and the insurance industry to help manage the market. But more severe floods (such as in 2007) had led to large payouts and subsequent increases in prices. This situation threatened a failure of the market in many areas. Parliament set out general arrangements for Flood Re through the Water Act 2014.

Performance so far and issues for the future

Since its launch, Flood Re has been able to report strong and clear benefits for most domestic customers in areas at risk. By 2019, for instance, four out of five households with a history of flood claims had seen prices drop by 50%.

Flood Re has effectively stabilised the domestic flood insurance market. It now faces the challenge of helping to promote more sustainable approaches to flood prevention, resistance and resilience. These will ultimately be needed if the market is to be able to reflect risk. There is a paradox in this. If customers can buy cheaper flood insurance, they may be less concerned about taking wider action to manage flood risks.

In addition, Flood Re doesn't cover commercial or all residential properties. The Government has tended to highlight industry-led solutions to those problems.

After prolonged and repeated flooding events over the winter of 2019-20, the Government announced the launch of the Blanc review. This will consider the level and adequacy of flood insurance in affected areas.

1. Flood Re: what it is and how it works

1.1 How Flood Re works

Flood Re is a joint initiative between the Government and the insurance industry that aims to ensure that householders in areas at risk of flooding are able to get adequate cover at reasonable prices.

The scheme was launched in 2016, replacing various statements of principles and approaches, as summarised in section 2. Flood Re was also designed as part of a wider response to flooding prevention and management. This briefing paper focuses on its effect on household insurance.

The fundamental feature – and the meaning of the "Re" in the name – is that Flood Re is a re-insurance scheme. Flood Re's website explains how the scheme works overall:

> Every insurer that offers home insurance in the UK must pay into the Flood Re Scheme. This Levy raises £180m every year that we use to cover the flood risks in home insurance policies.
>
> Flood Re works with insurers behind the scenes. When you buy home insurance cover, your insurer can choose to pass the flood risk element of your policy to us for a fixed price.
>
> If you make a valid claim for flooding, your insurer will pay the claim. Later on, we'll reimburse that insurer from the Flood Re fund.
>
> In short, you buy home insurance in the usual way. We cover the flood risk and that helps to keep your premiums down.

As that summary notes, Flood Re is kept behind the scenes, so customers are unlikely to be aware of its existence – at least as long as they are covered by the scheme.

In theory, insurers can decide whether a domestic policy should be covered under Flood Re and so whether to pay the appropriate fees to the scheme. So a company could choose not to include a specific household policy, but this would be likely to lead to very high and thus uncompetitive premiums.

When setting out how the new scheme would operate in 2014, the then Government explained that the scheme sought to help those most at risk from flooding:

> Flood Re is designed to cover the 1 to 2% of households at the greatest risk of flooding, who would otherwise find it difficult to find affordable insurance cover in an open market. The majority of homes will not need to be in Flood Re because they will be able to secure flood insurance at prices lower than those offered through Flood Re.[1]

[1] Defra, Water Bill: Part 4 - Flood Insurance: Scope of Flood Re, March 2014, p1

1.2 Which properties are eligible?

Flood Re has various exclusions that can make it difficult to determine whether some properties are eligible for it. The Flood Re tool is a useful first step for customers to determine general eligibility, although, as outlined above, insurance companies make the final decision about whether to include eligible customers.

Please note that while Flood Re covers both buildings and contents insurance, the specific rules may differ and are sometimes complex. This reflects the way that these types of insurance are sold in the UK.

In general, commercial customers are excluded, as are mixed-use properties, and (for buildings cover) buildings with more than three properties and those rented out to tenants who are not closely related to the owner. The scheme also excludes buildings constructed after 1 January 2009.

Flood Re provides a more thorough list of eligibility criteria:

> Properties will be eligible only if they meet all of the following criteria:
>
> 1. They are covered by an insurance contract which is held in the name of, or on trust for, one or more individuals or by the personal representative of an individual;
> 2. The holder of the policy, or their immediate family, must live in the property for some or all of the time (whether or not with others) or the property must be unoccupied;
> 3. They have a domestic Council Tax band A to H (or equivalent);
> 4. They are used for private, residential purposes;
> 5. They are a single residential unit or a building comprising of two or three residential units;
> 6. They are insured on an individual basis or have an individual premium;
> 7. They were built before 1st January 2009 (if a home is built before 1st January 2009 but then demolished and rebuilt, the new home is still eligible); and
> 8. They are located within the UK comprising England, Wales, Scotland and Northern Ireland (excluding the Isle of Man and the Channel Islands)
>
> We expect that the following properties will be eligible for buildings or combined cover provided **they also meet the criteria 1-8 above**:
>
> a) Bed and breakfast premises paying Council Tax and insured under a home insurance contract;
>
> b) Farmhouse dwellings and cottages. Where farmhouse dwellings are included in a commercial line policy, provided the insurer can split out the dwelling element (which meets the criteria 1-8 (inclusive) above), that part of the risk can be ceded to Flood Re;
>
> c) Holiday/Second Homes;

d) Properties occupied by home workers;

e) Individual leaseholders protecting their own property/flat;

f) Leasehold blocks if they contain 3 units or fewer and the freeholder(s) lives in one of the units to be insured;

g) Single unit leasehold properties where the leaseholder insures the structure of the property

h) Residential 'buy to let' properties

i) Static Caravans/homes if in personal ownership;

> Flood Re will also cover a tenant's / individual's contents in rented or leasehold properties even where the buildings risk would not be eligible (such as in large blocks of flats) provided the policy and the property it relates to fulfil the criteria 1-8 above.
>
> Properties which we would not expect to fulfil the eligibility criteria for buildings or combined cover include:

a) Bed and breakfast premises paying business rates;

b) Blocks of more than three residential flats;

c) Company houses/flats;

d) Properties covered by contingent buildings policies (e.g. held by banks);

e) Farm outbuildings;

f) Properties used by freeholders/leaseholders in deriving commercial income insuring blocks/large numbers of properties in a portfolio;

g) Housing association's residential properties;

h) Multi-use properties under commercial or private ownership;

i) Residential 'buy to let' (which do not meet the criteria 1-8 (inclusive) above);

j) Social housing properties; (eligible for Contents cover but not eligible for Buildings cover);

k) Static caravan site owners (for commercial gain).

This means that, for instance, if a charity owns a property and rents it out as social housing, that property might be excluded if responsibility for insurance lies with the charity. If the resident is responsible, it may be within scope.

While Flood Re's focus on private residential cover is explicit, the range and nature of exclusions has led to some criticism. Section 2 provides more background to the types of choices made, while section 3.1 gives some further information about continuing concerns.

A notable exclusion from Flood Re eligibility is buildings constructed after 1 January 2009 (unless replacing another demolished building). As the Government explained when introducing the scheme:

> New housing development should be located to avoid flood risk, or where development in a flood risk area is necessary, it should be designed to be safe, appropriately resilient to flooding and not

> increase flood risk elsewhere, in line with the national planning policies in place. For this reason, properties built after 1 January 2009 will be excluded. This carries forward the position under the "Statement of Principles" agreement between Government and the Association of British Insurers, on behalf of their members (which guaranteed continuing insurance cover in specific circumstances). [2]

In addition, **the scheme will end in 2039**, with reviews along the way (as discussed in section 2.2). As Flood Re explains:

> Flood Re is planned to be in place until 2039. As well as helping to enable home insurance to remain affordable in areas at risk of flooding, Flood Re also has a role to help manage a transition to home insurance prices that fully reflect flood risk. This means that people benefiting from Flood Re need to become more aware of their flood risk and, if possible, take action to reduce it.
>
> In 2039 the Flood Re Scheme will end and there will be a free market for flood risk insurance. There will be a review at least every 5 years to assess Flood Re's progress in managing a transition to this free market, which may consider the premium charged for each policy and the Levy charged by Flood Re to UK home insurers.

[2] Defra, Water Bill: Part 4 - Flood Insurance: Scope of Flood Re, March 2014, p1

2. How did Flood Re come about?[3]

2.1 Statements of principles

Flood insurance provision was guided by a Statement of Principles first agreed in 2002 between the Government and the Association of British Insurers (ABI). This was a set of commitments by the industry to provide flood insurance for domestic properties and small businesses "for as many customers as possible". Insurance premiums and other terms – such as excesses – would be based on an assessment of the risk of flooding "but will be offered in a competitive market". The agreement also stated that continued provision of insurance would depend on Government action to reduce flood risk by investing in defences.[4] The industry would provide cover for homes that:

- were protected at or above minimum government standards of flood defence, or
- would be covered in the future by planned improvements to flood defences.

An ABI press release outlined the main terms of the agreement:

> The **Statement of Principles** has five objectives
>
> - full access to a competitive market for insurance for the vast majority of homeowners and small businesses;
> - improved security for those who live and work in high-risk areas;
> - new provisions for those who wish to sell their homes or businesses;
> - better use of new solutions to make properties insurable, even in high-risk areas where improvements to flood defences are not planned;
> - a clear incentive for Government and local authorities to continue to invest in flood defences.
>
> Around one in ten of the UK's 20 million homes and businesses is situated in the floodplain. The vast majority of these – around three quarters – are protected against the risk of flooding at or above the Government's own minimum standards, and ABI members will continue to make flood cover available for them as a standard feature of household and small business policies. Premiums and other contract terms will reflect the different levels of flood risk, as they do for other factors such as crime.
>
> The new Statement of Principles will also benefit policyholders who face higher risks of flooding (i.e. are not protected to the Government's minimum standards). Where improvements in flood defences sufficient to meet the Government's standards are

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3 Much of the information in this section is taken from Household flood insurance, CBP6613, 11 March 2017. That briefing is no longer being updated but contains detail of Parliamentary consideration of the issues involved.

4 ABI, Statement of Principles, November 2002, quoted in Household flood insurance, CBP6613, 11 March 2017

> scheduled for completion by 2007, insurers will maintain flood cover for homes and small businesses which they already insure. Going beyond the terms of the existing two-year agreement, insurers will also make special efforts to maintain cover for properties when they are sold, subject to satisfactory information about the new owners and proposed use of the premises.
>
> Where improvements in flood defences are not planned, insurers will "examine the risks on a case by case basis and use their best efforts to continue to provide cover." The Statement of Principles commits insurers to work with policyholders where necessary to see if action can be taken to make the property insurable. This might include the use of accredited flood protection products and temporary defences.[5]

Extreme rainfall in 2007 led to widespread flooding in England and Wales. It was arguably the largest peacetime emergency since World War II, causing 13 deaths and £3.2 billion in damage.[6][7] In response the Labour Government commissioned Sir Michael Pitt to undertake an independent review of the floods. It concluded that "urgent and fundamental" changes were needed to reduce flood risk. However, it generally supported the arrangements for flood insurance provision.

Following a review of flood insurance in 2008 the ABI and government updated the statement of principles. It ensured that cover would continue to be available to the vast majority of householders and to SME properties.[8] The statement did not apply to buildings constructed after 1 January 2009.[9]

But the statement of principles had limitations, not least that it could not guarantee affordable insurance:

> The Statement of Principles required insurers to continue to offer cover to their existing policyholders, regardless of their flood risk. However, it did not require insurers to do so at an affordable premium and or excess. Nor did it require insurers to offer cover to new policyholders and as such, policyholders found themselves unable to shop around to take advantage of the otherwise competitive home insurance market. It was not therefore a sustainable solution for either the insurance industry or the Government and was unsatisfactory for householders. Nor did it provide a sustainable solution to the policy issue. Furthermore, one of the key drivers of Flood Re was the emergence of new entrants in the home insurance market after 2000. These new entrants were able to take advantage of advances in the quality of flood risk data available and, therefore, avoid customers at the highest flood risk, resulting in a distortion in the home insurance market.[10]

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5 ABI, Statement of Principles, November 2002, quoted in Household flood insurance, CBP6613, 11 March 2017, p7-8

6 Environment Agency, The cost of the 2007 floods, January 2010

7 Cabinet Office, The Pitt Review: Learning lessons from the 2007 floods, June 2008

8 Flood Re, Regulation 27: The Quinquennial Review, July 2019, p12

9 Defra, Flooding and insurance: a roadmap to 2013 and beyond: An interim report of the flood insurance working groups, May 2011

10 Flood Re, Regulation 27: The Quinquennial Review, July 2019, p12

2.2 Towards a new solution

The insurance industry and the Government continued to discuss strategies to deal with future arrangements, holding a Flood Summit in 2010 and eventually issuing a joint Memorandum of Understanding in June 2013. This formed the basis of what was already being referred to as Flood Re. As the Memorandum explained:

> - Flood Re will be run and financed by insurers as a not-for-profit fund which will cover the cost of flood claims from high risk homes.
> - Insurers will pass the flood risk element from those households deemed at high risk of flooding to the fund. Premiums for the flood risk will be calculated based on council tax banding up to a maximum limit depending on the Band.
> - Flood Re would charge member firms an annual charge of £180million.This equates to a levy of £10.50 on annual household premiums and represents the estimated level of cross-subsidy that already exists between lower and higher flood risk premiums.
> - Flood Re will be designed to fully deal with at least 99.5% of years. Even in the worst half a per cent of years, Flood Re will cover losses up to those expected in a 1 in 200 year – a year six times worse than 2007 – with Government taking primary responsibility – working with the industry and Flood Re – for distributing any available resources to Flood Re policyholders should claims exceed that level.
>
> Providing operational issues, including governance and regulatory approval, are resolved, the aim is for Flood Re to be up and running by summer 2015, with regular progress reviews taking place to ensure Flood Re can proceed. For now ABI members will voluntarily continue to meet their commitment to continue to offer flood cover to existing customers under the previous Flood Insurance Statement of Principles.[11]

Flood Re notes that the scheme both enabled the insurance industry to "address the previous inequity in the market and the operational difficulties of the Statement of Principles", while allowing the Government to align arrangements with its wider flood management policy. Furthermore, it noted that the scheme was designed to have a limited lifespan:

> The Scheme was designed as a transitional measure, with a limited lifespan of 25 years, expiring in 2039. By then, market conditions should enable insurers to price flood insurance depending on risk but at affordable levels. In order to make the risk reflective pricing of such insurance sustainable, during this period the UK Government committed to continue to invest in infrastructure to mitigate flood risk. Flood Re would be funded entirely by the UK insurance industry through (1) a Levy charged to all insurance companies active in the UK home insurance market, with Levy contribution based on market share, and (2) to premiums paid by the insurers for risks transferred to the Scheme.

11 ABI, "ABI and Government agree Memorandum of Understanding on scheme to safeguard UK flood insurance", 27 June 2013

> The Government would not contribute to the funding of the Scheme.[12]

2.3 The Water Act 2014

Legislative arrangements for Flood Re were included in the then *Water Bill* (Bill 146 2013/14).

Defra had published a consultation document (June 2013), initial draft clauses in Water Bill: commentary on Draft Flood Insurance Clauses, (September 2013) and a commentary on proposed amendments (November 2013).

Dan Rogerson, then Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs, provided some further detail at the Public Bill Committee on 12 December 2013. His comments included the following:

Will the system cover small businesses? Yes, if they pay council tax:

> any business based in a property that is primarily a residential property, and on which the occupier therefore pays council tax, will come into the system. Any business based in premises used primarily for business will not be covered. An example might be a farm business. If council tax is payable on the residential property—the farmhouse—that will be covered, but barns and outbuildings, which may be subject to a business rate, will not be covered.[13]

Will the transition from the old system lead to higher prices?

> we want the system to increase incentives for households and communities to manage their flood risk. However, there was a risk that the expiry of the statement of principles could lead to sudden shifts in pricing and cause hardship for those at a higher risk of flood. That is why we are introducing measures to help those at risk in the medium term. We want to ensure that transition takes place in an orderly and equitable fashion. That message emerged clearly from the consultation, so we have strengthened the provisions in that respect.[14]

Will the government face a financial liability if the fund built up by Flood Re runs out?

> there is no Government liability for Flood Re. As I have said before, the UK has a multi-billion-pound, world-leading insurance industry and we believe that it has the ability and the financial strength to resolve this issue without calling on hard-pressed taxpayers[15]

How many properties are likely to be included in Flood Re?

> We anticipate that around 500,000 high-risk households could benefit from the flood reinsurance scheme, and pay less for their insurance than they might otherwise. The price of a high-risk combined buildings and contents policy would be about £720 per year for a band C household. While that might be higher than

12 Flood Re, Regulation 27: The Quinquennial Review, July 2019, p13
13 PBC 12 December 2013 c236
14 PBC 12 December 2013 c237
15 PBC 12 December 2013 c237

> some high-risk households are paying now, without Flood Re, such policies could be well over£1,000.
>
> […]
>
> In all these issues, we are guided by those in the industry who have the information at their fingertips. I know that the hon. Gentleman [Thomas Docherty MP] is concerned about the accessibility of that information. That is an issue we will discuss later; it is a good point. Alternative estimates have been made, for instance by the British Insurance Brokers' Association, that were slightly lower. In all of this we have been in discussion with the Association of British Insurers who have the most up-to-date information, and that is where the figure of 500,000 came from.[16]

When will the government step in?

> The memorandum of understanding with the Association of British Insurers sets out that if flooding exceeds a one in 200 year event the Government of the day will take primary responsibility for apportioning money and working with Flood Re and representatives of the insurance industry to ensure that resources are distributed to Flood Re customers.[17]

Will there remain 'uninsurable properties under the scheme?

> I understand from the discussions I have had that the concept of uninsurability will emerge as Flood Re operates, in terms of the numbers of properties affected and the ability to take account of the cases that the hon. Gentleman raises. While there might be estimates of the number of properties that would be in that situation, that point is what we need to remember.
>
> I can confirm to the hon. Gentleman that there are no plans to exclude those at the highest risk at the outset. However, it may be necessary to assess properties that might come into that category as the scheme develops, to establish whether they are flooding repeatedly year after year perhaps, or whatever—those at the very highest risk. When the system begins operating, there will not be that concept of uninsurability.
>
> […] This is an industry-based scheme and so the details of the scheme will develop, but this concept of uninsurability is not there at the outset. However, we must have a means of ensuring that the use of the funds, which after all will be built up by a levy from other payers, is proportionate. We have to deal with that question. We must have a way of considering properties that repeatedly flood and draw disproportionately on the funds of Flood Re.[18]

How will government review the scheme and its solvency, in the future?

> It is certainly intended that the policy will be reviewed every five years by Government to assess the level at which the levy and the eligibility thresholds are set. That will ensure that the objectives for Flood Re will continue to be delivered, and that includes the transition to a risk-reflective price. Thresholds and the levy will need to be set in secondary legislation, as the hon. Gentleman rightly assumes, so Parliament will have the opportunity to take a view in the normal way as part of that scrutiny process.

16 PBC 12 December 2013 c239
17 PBC 12 December 2013 c241
18 PBC 12 December 2013 c241-2

> […] Joint modelling by Government and the industry suggests that the primary levy, Flood Re's reserves and its reinsurance cover should be sufficient in most years for Flood Re to cover its costs. If Flood Re makes a profit, that will be retained by the scheme and create reserves that, in the first instance, could cover a shortfall. However, given the unpredictable nature of flood damage, there might be circumstances where Flood Re faces a shortfall and does not have those reserves or where losses are below the point at which reinsurance takes effect, such as with consecutive flooding events, or in the early years of the scheme as the reserve builds up. New clause 3 therefore allows for further ad hoc contributions to be sought from all by way of a top-up levy. Subsections (1)(b) and (2) of new clause 3 refer to the top-up levy.
>
> Analysis suggests that top-up contributions should be required, on average, only once or twice in the first 10 years of Flood Re's operation. In those circumstances, Flood Re may be required to call on those top-up contributions urgently in order to remain solvent and to ensure it meets its capitalisation requirements under EU law.[19]

Why does the new agreement only last for 25 years?

> New clause 20 concerns the proposed lifespan of the flood insurance measures, which we intend to limit to no more than 25 years. We believe that it is right to plan to provide support over that period to smooth the transition to risk-reflective pricing. The approach to managing that transition will be subject to regular review as part of the levy setting discussions. Alongside that, the Government will continue to focus on appropriate controls on spatial planning, maintaining flood defences and other resistance measures and, at household level, protecting properties in higher flood risk areas by encouraging the installation of flood protection measures and resilient repairs after a flood.[20]

The relevant parts of the *Water Act* that brought Flood Re into force became live in January 2015.

2.4 Scheme regulations

Most of the detailed rules for the scheme were left to subsequent regulation. Defra published a consultation on these in July 2014 and published its response in December 2014.[21] This included various changes and clarifications, including the following:

- The scheme envisaged being able to respond to anything up to a one-in-200-year event. In a situation worse than this, Flood Re and the Government would have to decide what to do, although initial contractual responsibility would pass back to insurers (p22).
- Flood Re would not add more than £100 million to public sector net borrowing (PSNB). The scheme would be required to buy appropriate stop-loss insurance to meet this requirement. The Government would retain a right of veto to prevent any change to this provision (p11).

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[19] PBC 12 December 2013 c244
[20] PBC 12 December 2013 c257
[21] Defra, Government response to the public consultation on the Flood Reinsurance Scheme Regulations, December 2014

- Properties that are rented out would not be included (for buildings insurance), but leasehold properties would be for contents insurance (p21).
- Small businesses would not be covered. The Government and the ABI would continue to work together to monitor the situation (p21).
- In a change to earlier plans, Flood Re would now cover properties in council tax Band H (p21).
- The cut-off date for eligibility would not be changed from 1 January 2009 (p21).

Please note that these changes (and further detail) are all consolidated in the list of eligibility criteria on Flood Re's website.

2.5 Commencement and launch

The paving legislation for both the scheme and the scheme administrator appeared in two Statutory Instruments:

- *The Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015*
- *The Flood Reinsurance (Scheme funding and Administration) Regulations 2015.*

The original timetable envisaged that Flood Re would be launched in 2015, but in the event the launch was delayed until April 2016 to allow time for testing with insurers.[22]

[22] Daily Telegraph, "Government insurance scheme launch confirmed for 2016", 8 June 2015

3. Flood Re's performance

Flood Re began operating in 2016. According to its latest annual report, in the year to 31 March 2019, Flood Re reported the following achievements:

- Nearly 250,000 properties benefiting since launch
- 4 out of 5 households with previous flood claims have seen a price reduction of more than 50%
- 164,480 policies this year
- 94% of the home insurance market offer the Scheme
- 93% with prior flood claims can now receive quotes from five or more insurers
- Premium reduction for insurers of 12.5% for buildings, 33% for contents.

Early reaction to the scheme has generally been very positive. Case studies and reports were able to demonstrate clear benefits for consumers, as in the following report in The Telegraph from 2016 about the experience of a householder in Surrey:

> One home owner affected by flooding is Jeanette Shipp, 61, a purchasing officer from Surrey, who was flooded on Christmas Eve 2013, damaging much of the ground floor of her home and forcing her to live in hotels for months.
>
> The freak event happened after weeks of rain, and Ms Shipp has not had any flooding in her home before or since.
>
> After a dispute, and the intervention of *Telegraph Money*, her insurer eventually paid out and her home was repaired, a result she is very happy with.
>
> However, since then she has now been without flood insurance for two years, because the policies she has been offered are too expensive for her to afford.
>
> She does have a home insurance policy, but it will not cover her for flooding – a source of constant stress.
>
> She said: "I haven't been able to find any flood insurance that was anywhere near affordable. It was a £3,500 premium with a £30,000 excess in the first year, the second year it was a £15,000 excess.
>
> "That was the only time in the 30 years I've been living here that the water has come into the house. It is worrying, at the back of your mind, because if it happened it would ruin you."
>
> Telegraph Money asked her to take a look at three price comparison sites to see whether her options had improved after the introduction of Flood Re.
>
> She searched for quotes for home insurance including flood cover on three sites, disclosing all the information about her previous claim.
>
> Where previously she had been quoted thousands of pounds for flood insurance which had only been available through specialist brokers, she found that her options had improved.

> Policies were available for as little as £425, with much lower excesses than had previously been available.

In 2018, Defra undertook a study of the availability and affordability of insurance[23], comparing consumers in areas at risk of flooding with a control group. This found that those in at-risk areas considered household insurance to be more affordable and readily available than it had been in 2015, even if those customers paid more overall than those in the control group. In addition:

- 1% of owner-occupiers in at-risk areas had no household insurance, compared with 3% in the control group.
- 34% of at-risk renters did not have contents insurance, a decline from 41% in 2015. 21% of renters in the control group had no contents insurance.
- Of the 9% of at-risk consumers who had no insurance, 18% felt that the cost of premiums was too high, and 12% that the risk did not justify the expense. Overall, this meant that 3% did not have insurance on the grounds of affordability and 1% on those of availability. [24]

Five-year review (2019)

Flood Re underwent its first quinquennial (five-year) review in July 2019. That report concluded that Flood Re had given householders "a subsidised reduction in premium and a stable, low excess on the flood peril element of their home insurance policy. In doing so, Flood Re has successfully enabled the re-creation of an accessible and effective insurance market for these homes."

The report conceded that although the scheme had become financially robust, it had yet to experience a substantial flooding incident.

The review made two sets of recommendations about the future of the scheme. The first included adjustments to arrangements for financial management of the scheme. The second set reflected an increasing emphasis on the link between Flood Re's focus on household insurance and its wider remit to help promote flood resilience and resistance. The second set is discussed below.

3.1 Outstanding issues

Transition plans and links to wider flood policy

As noted previously, Flood Re was designed as an interim solution to the problem of potential market failure. It aims to leave the market by 2039, having helped a more sustainable market approach to develop. While it has demonstrated success in helping to reduce premiums, that focus might ultimately conflict with wider policy on flood management – and indeed a sustainable insurance market itself. Early reviews of Flood Re have noted this potential dilemma, not least in promoting 'moral hazard', in which consumers choose not to take precautions to

> We discuss wider flood policy in our briefings Winter and autumn floods, 2019-20, Planning and flood risk and Flood risk management and funding.

23 Defra, Availability and affordability of insurance, July 2018
24 Ibid., p57-58

protect themselves because they believe themselves to be adequately covered by insurance. Wider investment in flood prevention and resilience would also be required.[25]

The most obvious aspect of the wider strategy in Flood Re's overall approach to date has been the general exclusion of properties built after 1 January 2009.

The scheme had been launched with an initial transition plan in 2016. Flood Re's second (2018) transition plan[26] acknowledged:

> A crucial part of the thinking behind Flood Re was to mandate it to manage the transition back to risk–reflective pricing. In our first transition plan, we said that meant that after 2039 premiums and excesses should, as well as being risk-reflective, remain affordable without the benefit of the levy.
>
> For this to happen, we need to tackle together the factors that drive up the costs of flooding and flood cover. More effective flood risk management will reduce the frequency and severity of flooding. Insurers' support for homes to be more resilient to flooding, and better and cheaper reinstatement will reduce the costs when flooding happens. Householders too will need to act to make their homes and communities more resilient and so reduce the risk of flooding and the costs of repair. (p6)

The plan set out Flood Re's vision of how it intended to achieve affordable home insurance over the longer term:

> **Reducing the risk of flooding**
>
> - Investing in flood risk management and defences
> - Development with flood risk in mind
>
> **Reducing the damage and costs of flooding**
>
> - Improving property flood resilience and resistance products
> - Improving the operation of community flood resistance and resilience
> - Increasing the overall flood resilience and resistance of the UK's housing stock
> - Reducing the cost of reinstatement
>
> **Achieving an effective market**
>
> - Improving flood modelling
> - A smooth Flood Re exit
> - Improving consumer information on flooding and the value of insurance
> - Active engagement in the market. (p5)

The plan also refers to the challenge of "the limits of affordability", offering the following approach:

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25 See, for instance, S Surminski, "Fit for Purpose and Fit for the Future? An Evaluation of the UK's New Flood Reinsurance Pool", Resources for the Future Discussion Paper 17-04, 2017

26 Flood Re, Our vision: Securing a future of affordable flood insurance, 2018

- Continued support for those with unavoidably high level of flood risk
- Minimising the size of the highest risk group.

Flood Re built on this in its five-year review, noting both its limited powers in directing change and its role as a convenor of stakeholders who can. It linked this to the Government's commitment (as part of its wider agreement with the insurance industry) to commit £2.65bn over seven years to fund flood defences between 2015 and 2021).

In further moves to deal with the "paradox" of its role, the review made the following recommendations:

> **Proposal 5: Discounted PFR premiums**
>
> It is proposed that Flood Re is able to offer a discounted set of inwards premiums for properties that have fitted 'allowable' resilience measures and will work with the insurance industry to introduce a proportionate approach that incentivises resilience in this manner. (p50)
>
> **Proposal 6: Build Back Better**
>
> It is proposed that the Flood Re Scheme is amended to permit the payment of claims which include an amount of resilient and or resistant repair, above and beyond the loss, designed to reduce the future risk and/or future cost of repairing flood-related damage of flooding to the property ("build back better"), where this is part of an insurer's proposition. (p54)
>
> **Proposal 7: Change to statutory objective**
>
> It is proposed that the purpose of Flood Re be formally changed in legislation to an obligation to manage "the transition of the market to **affordable** risk reflective pricing" for household insurance for those at risk of flooding. (p61)[27]

Flood Re submitted these recommendations to the Secretary of State for approval in June 2019.

An article by the liberal conservative think tank Bright Blue in February 2019 questioned the equity of the 2009 cut-off date for Flood Re eligibility, noting that buyers might be left in ignorance:

> There is no legal requirement to provide flood risk information to homebuyers, although the Law Society publishes guidance on good practice in informing clients of flood risk during conveyancing.
>
> We should consider that the 2009 cut-off, rather than reducing exposure, may have simply left unwary homebuyers, to use an inappropriate expression, 'high and dry'. As they are not covered by Flood Re, concentrations of post-2008 properties in high flood risk areas, such as new estates, are naturally some of the most vulnerable in the country to becoming 'insurance blackspots'.

The ABI reacted strongly to the suggestion, highlighting the potential cost to all consumers:

> There are lots of sensible suggestions in the report, but extending Flood Re to properties built after 2009 is the wrong answer and would mean all homeowners paying the cost for

27 The change was to highlight that insurance should be "affordable".

> poor development and building on unprotected flood plains. We must have a zero tolerance approach to inappropriate development in flood risk areas and bring forward stronger measures to prevent this from happening, not measures that further incentivise it.

Cover for commercial properties and small firms

Flood Re applies to the domestic insurance market only.

During the winter of 2015, flooding affected northern regions of England. Many businesses were affected, with subsequent implications for their flood cover.[28]

Parliament held an adjournment debate on the matter on 8 February 2016.[29] The Flooding Minister, Rory Stewart, outlined the arguments against a commercial Flood Re equivalent.

> First, setting up one of these schemes involves a very considerable cost to the dry. […] For example, if a business has indeed, as he said, flooded twice in four years at a cost of £500,000 to its stock each time, it will be difficult to provide insurance without some measure of cross-subsidy for businesses that are not in flood-affected areas.
>
> The second problem is the complexity of flood insurance for businesses. It is much more straightforward for householders, […]. A business, on the other hand, has to look at how much it […] wants to lower its premiums and self-insure against a higher excess. […] An internet company will not want to invest much in insuring the building that it is in, whereas for a farm, a property business or a restaurant, that fixed structural asset is absolutely essential to the continuity of its business.
>
> […]
>
> There is also, of course, the issue of moral hazard. We do not want to encourage businesses to locate themselves in flood-vulnerable zones if they have a high fixed structural asset cost. […] Nevertheless, something must be done. […]
>
> Thirdly, should we consider a different insurance model? One possibility – we have not done this in flood insurance before – is to consider the approach taken by travel and medical insurance, which have a fixed indemnity. If the Government are to be involved, it might be reassuring for them to know that a property had a fixed indemnity of £20,000 or £50,000 attached to it, rather than what we have at the moment, which is an unlimited flood insurance liability.[30]

The Minister said that he was going to discuss the problem with the industry.

An article in the insurance industry trade magazine, *Insurance Post*, confirmed that a roundtable took place but that a Flood Re scheme for SMEs was "fundamentally challenging".[31] The reasons included:

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[28] See, for instance, Environment Agency, "Estimating the economic costs of the 2015 to 2016 winter floods", January 2018

[29] HC Deb 8 February 2016

[30] HC Deb 8 February 2016 c1414

[31] *Insurance Post*, "SME flood scheme 'challenging to implement despite government talks'", 18 February 2016

- the smaller population that would have to pay a subsidy;
- difficulties in determining which businesses would be in the same pool to provide for and claim on subsidies and pay flood premium levies (for instance, would all hairdressers be in the same pool?);
- the ethics of business subsidies; and
- the fact that business claims vary more widely than claims for homes – because they include elements for business interruption.

The article noted that a survey by the Federation of Small Businesses found that only 6% of SMEs in at-risk areas had failed to find insurance and only 3% had been offered it but found it unaffordable.

Insurance Post reported on progress in January 2017:

> […] in December [2016], the British Insurance Brokers Association launched a scheme for small businesses excluded from Flood Re. Underwritten by Lloyd's … the new product is available to BIBA members.
>
> Ian Fletcher, director of policy at the British Property Federation, sees no issue with the scheme being limited to BIBA brokers. "In practice, most leasehold business, I suspect, would be placed via a broker and since most brokers are members of BIBA, it should mean easy access to their scheme". In the private rented sector, more business is done direct with insurers rather than via brokers. "But if you are struggling to get flood cover, you would have access to a broker and in most cases want their help, so overall this is a good scheme that would help the people we represent".[32]

A study by Defra in 2017 found no significant difference in insurance take-up between small businesses in high- or medium-risk areas and those in low-risk areas. The study concluded that:

> Overall, although there has been a decline in insurance uptake since 2015, there appears to be little concern with the availability of insurance products for small businesses regardless of whether or not their business is located in a high/medium risk flood area.[33]

Leasehold flats

Flood Re also excludes buildings insurance for blocks of more than three leasehold flats.

A Westminster Hall Debate in December 2016 raised this issue. The then Minister, Dr Thérèse Coffey, set out the problems and reported that it was being investigated:

> Turning to leaseholds, particularly long leaseholds, I have commissioned my officials to look at the nature and extent of the problems that my hon. Friend the Member for Carlisle described, as we need to look at them in more detail. He will be aware of the wider issue of small leasehold property, to which he referred. The insurance industry regularly informs us that for, the most part, affordable commercial insurance and contents insurance for individual leaseholders is available through Flood Re, but there are examples of individuals and leasehold properties with more than three residential units struggling to access affordable business

[32] *Insurance Post*, "Flood claims: Under the weather", 20 December 2016
[33] Defra, Availability of insurance for small businesses, June 2018

> insurance. Likewise, there are examples of residential buy-to-let properties not being covered and owners finding it difficult to obtain insurance.
>
> Evidence is building and the challenge is not easy. Much consideration was given during the creation of Flood Re to whether to include leasehold properties. From a practical perspective, insurers determine whether an individual property is at high flood risk on a household-by-household basis and can allocate the cost using a simple domestic insurance model. For leasehold properties, buildings insurance will often cover numerous dwellings, which may well have different levels of flood risk. It would be difficult to establish a consistently fair approach to how lessees should cover that risk.[34]

Since that time there have been several Parliamentary Questions on the issue. In the fullest reply, Dr Coffey acknowledged some continuing issues on 5 December 2017. But she suggested that action by the insurance industry and further attention to resilience measures might ease the problem:

> The government remains in close contact with the Association of British Insurers (ABI) and BIBA, neither of whom has identified a significant problem for leasehold properties accessing flood insurance.
>
> Government is aware that access to insurance remains an issue for a number of leasehold properties in blocks of four or more, where there is particularly high risk. We are following with interest a new service being provided by a BIBA broker which offers to formally vary leasehold agreements in order to give the leaseholder an express obligation to insure the structure of their property, thus allowing the leaseholder to access Flood Re.
>
> In addition, the Government continues to work with commercial interests under the Property Level Resilience Roundtable to promote the uptake of measures that make properties, including leasehold properties, more resilient to flooding. Successes include a one-stop shop flood resilience website, demonstration properties in Cumbria and the development of a Code of Practice.[35]

Consumer issues

The rules and complexities relating to Flood Re eligibility have led to some claims of confusion about coverage, and complaints that customers have been denied coverage without their knowledge.

As set out in section 1, Flood Re is a reinsurance scheme, so it has no direct contact with customers.

Customers who believe that they were not warned of any such exclusion may follow the standard complaints procedure overseen by the Financial Ombudsman Service.

3.2 The 2019/2020 floods

As noted above, Flood Re's first five-year review cautioned that the scheme was yet to be tested by large-scale flooding. That test was not long in coming, with heavy rainfall and flood alerts from summer 2019,

34 HC Deb 6 December 2016 c55
35 PQ 115818 [on flood insurance], 27 November 2017

followed by severe flooding in many areas in November and December. In the first months of 2020, Storms Ciara, Dennis and Jorge caused further flooding and damage across many areas of the UK.[36]

In November 2019, the ABI estimated that the insurance industry would pay out £110 million for damage to that point in Yorkshire and the Midlands. In early March 2020, they estimated a total figure of £363 million for Storms Ciara and Dennis alone. This was made up of £214 million for flood claims and £149 million for windstorm damage.[37]

Reporting of the floods highlighted problems with insurance, including exclusions and confusion about coverage.[38]

Government and Parliamentary responses

Responses to the floods have raised concerns about the extent and adequacy of flood cover, and by extension, the wider effectiveness of Flood Re.

On 27 December 2019, the then Environment Secretary, Theresa Villiers, announced a review that would "investigate the extent to which those affected by flooding did not have sufficient insurance cover."[39] Little detail immediately followed that announcement, but it is likely that initial plans have been incorporated into those for the Blanc review.

A Westminster Hall debate on 30 January 2020[40] considered the floods in South Yorkshire and responses to them. Although the debate covered wider planning and financial support aspects of flood management, it raised concerns about whether insurance coverage and awareness of Flood Re had been adequate.

Stephanie Peacock MP reported that of the "more than 148 properties" affected in Barnsley, "29 do not have insurance or sufficient insurance to cover the cost of repairing flood damage". She also referred to "[c]ancelled insurance plans and unscrupulous insurance companies", before calling for improvements to insurance arrangements and planning for new build:

> More needs to be done to improve access to insurance plans that can meet the needs of households in South Yorkshire. A comprehensive plan, with investment, needs to be developed to support the people who are still struggling to get by nearly three months after the floods. Across South Yorkshire, rising housing demand has not kept pace with the construction of affordable housing. It is crucial that careful attention is paid to proposed housing locations, particularly those on known floodplains. Housing needs and aspirations should be met, but in secure environments with low flood risk.[41]

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[36] See Autumn and winter floods 2019-20, Commons Library Briefing Paper CBP-8803, 10 March 2020
[37] By way of comparison, the ABI estimate noted that the series of storms in late 2015 had caused £1.3 billion in insured damage.
[38] See, for instance, Thisismoney.co.uk, "Sunk by the small print: Flood victims are shocked to discover their insurance is worthless...", 20 November 2019
[39] Defra, "Review into insurance cover following recent flooding", 27 December 2019
[40] HC Deb, 30 Jan 2020, c385-400WH
[41] Ibid., c385-386WH

Ed Miliband MP referred to continuing insurance problems, including exclusions overall and in "small print":

> I want to raise significant issues about the performance of insurance companies. I acknowledge that some insurers have acted speedily, including drying out homes and rehousing residents, but there have been many other bad experiences, which the Minister should be aware of—slow pace of response, drying out of properties not being properly carried out, and attempts to claim that people are underinsured so they are entitled not to the full amount, but only a large fraction of it. I want also to draw attention to particular problems that have been reported to me, about RSA Insurance aggressively driving down people's claims—something about which I have written to the company. I want the Minister's assurance that she stands ready to engage on those questions with insurers that are failing in their duties and with the Association of British Insurers. I also want her to engage with the issues that my hon. Friend the Member for Kingston upon Hull North (Dame Diana Johnson) raised about Flood Re, of which there is very low awareness.[42]

Responding on behalf of the Government, Rebecca Pow MP referred to the review announced by Defra.[43]

In response to a statement by the new Environment Secretary, George Eustice about Storm Dennis on 24 February 2020, several Members reiterated concerns about the limitations of Flood Re, notably the exclusion of small businesses and new build.[44]

In a Lords debate the next day, Lord Goldsmith of Richmond Park did not exclude the possibility of extending Flood Re to small businesses.[45]

In a letter of 25 March 2020, Rebecca Pow MP noted that changing the 2009 cut-off date "would be inconsistent with current planning policy".

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42 HC Deb, 30 Jan 2020, c389-391WH
43 Ibid., c389-391WH
44 HC Deb, 24 Feb 2020, c51-57
45 HL Deb, 25 Feb 202, c134

4. The Blanc review

On 14 April 2020, the Government published the terms of reference of a review of flood insurance to be led by Amanda Blanc. The announcement stated:

> The review will look at evidence relating to insurance cover for those affected in Doncaster following the November 2019 floods. It will consider barriers they may have faced in obtaining insurance and whether there are any systemic issues in the provision of flood insurance. Where necessary, it will consider actions relevant for future flood events.
>
> We expect the review to complete by the end of September 2020 and report shortly after.
>
> The review is to be led by the former chair of the Association of British Insurers and former Chair of the Insurance Fraud Bureau, Amanda Blanc. Amanda has commercial experience and a background in general insurance and retail. Amanda also understands the role of Flood Re.

The main questions that the review will investigate are:

> 1. What does the evidence tell us about the level of insurance cover held by those most recently affected by floods and the barriers they faced?
> 2. Does this evidence point to any systemic issues in the provision of flood insurance?
> 3. Does this evidence suggest any other issues regarding availability, affordability, barriers, or dissatisfaction with insurance coverage?

The review will include:

> …both domestic and business insurance.
>
> It will cover the breadth of issues related to insurance cover raised following the recent flooding including awareness of flood insurance, uptake, availability and affordability.
>
> It will cover issues raised for those with and without flood insurance.
>
> The review will include a deep dive of the Doncaster area, which is the most affected area following the flooding. The flood event in scope covers 8 to 18 November 2019.
>
> The availability and affordability of the flooding component of household insurance as a result of Flood Re's existence will form just one element of the wider review.

It will not focus on the conduct of the insurance industry itself.

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