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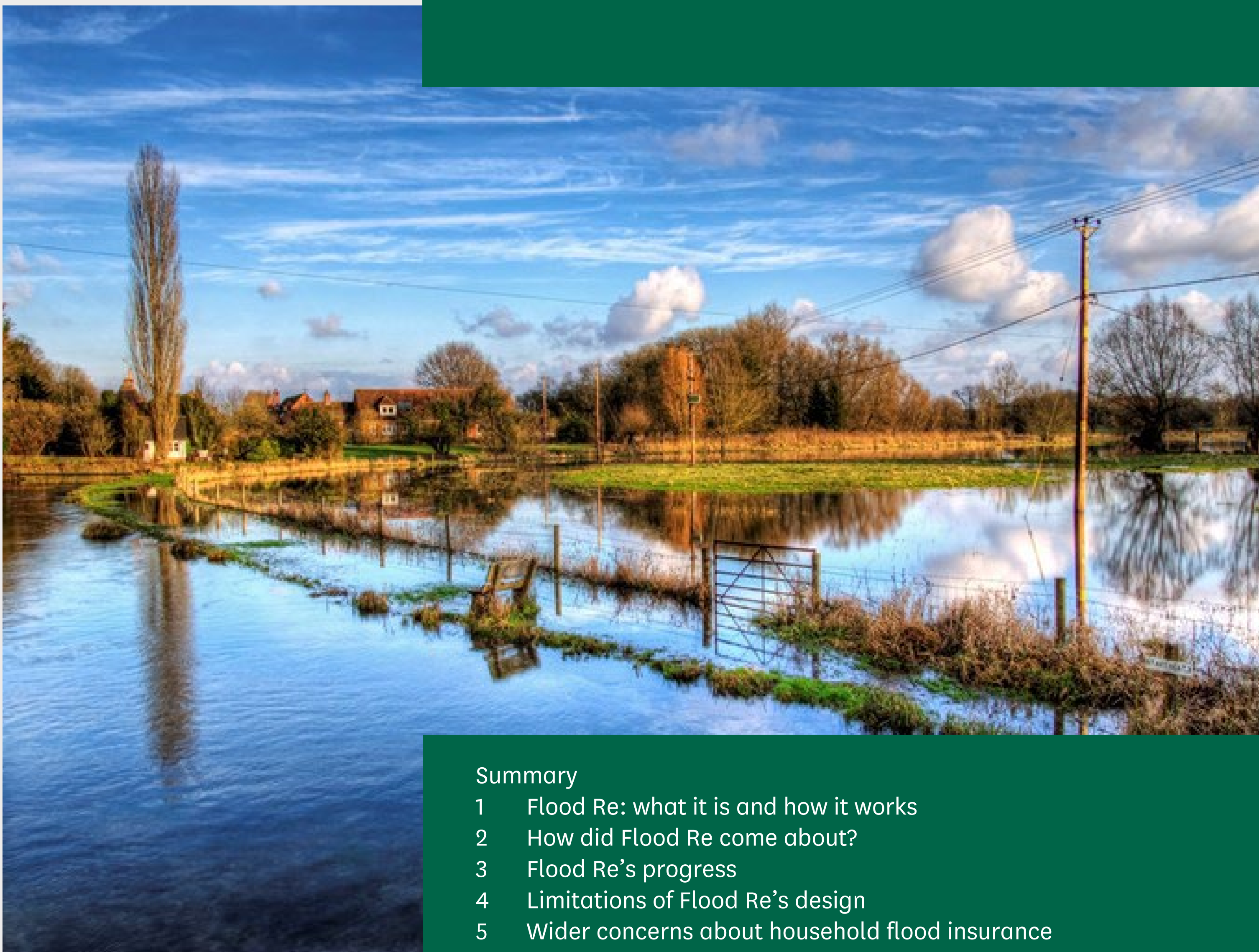
Flood Re and household flood insurance



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Contents

Summary

What is Flood Re?

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 can get adequate cover at reasonable prices.

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 of flooding to many households by paying a special levy.

Because it is a re-insurance scheme, Flood Re works with insurers rather than customers. Insurers decide whether to pass (or “cede”) individual policies to Floor Re for cover.

What does it cover?

Flood Re focuses on buildings cover for single private properties and contents insurance for a wider range of private households.

The eligibility rules for Flood Re are somewhat complex. They exclude commercial properties as well as certain leasehold properties. They also generally exclude 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 did Flood Re come about?

There had been earlier agreements between the Government and the insurance industry to help manage the market. But more severe floods had led to large payouts and increases in premiums. This situation threatened a failure of the market in many areas. Working with the insurance industry, the Government set out the framework for Flood Re through the Water Act 2014.

Progress so far and issues for the future

Since its launch, Flood Re has reported strong and clear benefits for most eligible domestic customers in areas at risk. For instance, its 2023 annual report says that four out of five households with a history of flood claims had seen prices drop by 50%.

Flood Re now faces the challenge of helping to promote more sustainable approaches (pdf) to flood prevention, resistance and resilience. These will ultimately be needed if the market is to be able to reflect risk.

But 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 2022, the Government implemented some changes to Flood Re, primarily to help support wider flood resilience among householders.

Limitations of Flood Re's coverage

Flood Re's strict eligibility rules mean that significant parts of the flood insurance market miss out on support:

- Despite the link between the scheme and wider planning laws, many homes continue to be built on floodplains and are excluded from the scheme. Defra says that any such development should have appropriate resilience measures in place, so the cost of cover should be lower.
- The focus on the domestic market excludes commercial properties and small businesses. The Government says that the commercial market is much more diverse and that there is little evidence that businesses have difficulty finding cover.
- Blocks of more than three flats are also excluded from buildings cover. The logic is that they are often run by private management companies, and eligible for landlord insurance. But the British Insurance Brokers' Association has argued that this unreasonably excludes up to a million householders.

Concerns about the availability and take-up of flood insurance

In 2020, the Blanc review found "worrying" levels of flood insurance cover, particularly among tenants. It called for better information and support for both owner-occupiers and tenants, as well as better monitoring of progress.

In response, the insurance industry and Flood Re jointly developed signposting schemes to help ensure that consumers struggling to find affordable cover can be directed to insurers who can support them, even if they are not eligible for Flood Re.

But some stakeholders were concerned that the recommendations might not have gone far enough in dealing with poor service by some insurers.

Defra plans to repeat an earlier study of the availability and affordability of flood insurance.

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 can get adequate cover at reasonable prices.

The scheme was launched in 2016, replacing various approaches, as summarised in section 2.1. Some of its features were amended in 2022. It will run until 2039. Flood Re was also designed as part of a wider response to flooding prevention and management.[1] This briefing 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. In brief:

- All UK household insurance providers must pay into a fund that raises £135 million a year.[2]
- Individual customers buy a policy from an insurer, who may then choose to pass the flood risk element to Flood Re for a fixed price based on the property's council tax band.[3] Customers make any flood-related claims to their insurer, who would pay out and then seek reimbursement from Flood Re.[4]
- Flood Re allows householders to claim up to £10,000 to install property flood resilience measures after a flood under its Build Back Better scheme.[5]
- Flood Re works behind the scenes, so customers have no direct interaction with it.[6]

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 an insurer could choose not to include a specific household policy, but this would be likely to lead to very high and thus uncompetitive premiums. The insurance

1 Flood Re, "About us" (accessed 6 June 2023)
2 Flood Re, "How is Flood Re funded?", (accessed 6 June 2023)
3 As above; Flood Re, "How are the premiums set for ceded policies to the scheme?", 25 September 2018 (accessed 6 July 2023)
4 Flood Re, "How Flood Re works" (accessed 6 June 2023)
5 Flood Re, "Build Back Better" (accessed 28 June 2023)
6 Flood Re, "How Flood Re works" (accessed 6 June 2023)

industry has also adopted a voluntary agreement that requires insurers and brokers to redirect people who are not eligible for Flood Re to flood insurance specialists who will be able to help them.[7]

1.2 Which properties are eligible?

Flood Re covers both domestic buildings insurance 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.

The Flood Re tool[8] is a useful first step for customers to determine general eligibility, although, as noted above, **insurance companies make the final decision about whether to offer policies** that include cover. Most insurers and brokers have however signed up to an agreement that requires them to direct eligible customers to providers of affordable cover, as discussed in section 5.2.

While Flood Re sets the rules, it's up to insurers whether they offer cover.

The scheme supports **buildings cover** for properties that 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)[9]

It supports **contents cover** to owners or leaseholders of eligible properties, but also for tenants and individuals "in rented or leasehold properties even

7 BIBA and ABI, Agreement for signposting households experiencing difficulty accessing flood insurance, 22 February 2022 (accessed 4 July 2023)

8 Flood Re, "Find an insurer" (accessed 6 June 2023)

9 Flood Re, "Eligibility criteria" (accessed 6 June 2023)

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."[10]

While Flood Re's focus on private residential cover is explicit, the range and nature of exclusions have led to some criticism.

See annex 1 to this briefing for the full published text of the eligibility criteria.

A notable exclusion from Flood Re eligibility is homes built after 1 January 2009 (unless replacing another demolished home). When it introduced the scheme, the Government explained that it aimed to discourage any further development in areas at high risk of flooding. It said that both national planning policy (in England) and existing agreements with insurers aligned with this principle.[11]

The rules generally exclude **buildings** cover for various other types of property, notably those that pay business rates, company accommodation, and multi-use properties such as bed and breakfast premises and farm outbuildings. In addition, it excludes blocks of more than three residential flats .[12]

Section 2 of this briefing provides more background to the types of choices made, while section 4 discusses continuing concerns.

1.3 Future arrangements

The scheme will end in 2039, with reviews every five years.[13]

Flood Re explains that as well as supporting affordable insurance in areas at risk of flooding, its intention (and that of the Government) is to "help manage a transition to home insurance prices that fully reflect flood risk". It aims to increase awareness of flood risk among people benefiting from the scheme so that if possible" they will "take action to reduce it."[14]

There scheme is reviewed every five years to assess progress in managing the transition. Those reviews also consider the price of premiums and the levy paid by insurers. The first review concluded in 2022 (as discussed in section 3.1).[15]

10 Flood Re, "Eligibility criteria" (accessed 6 June 2023)
11 Defra, Water Bill: Part 4 - Flood Insurance: Scope of Flood Re, March 2014, p1
12 Flood Re, "Eligibility criteria" (accessed 6 June 2023)
13 Flood Re, "Our future" (accessed 6 June 2023)
14 As above
15 As above

2 How did Flood Re come about?

The Government and the insurance industry had worked together for over a decade on several initiatives to deal with the challenge of providing flood insurance before Flood Re began operating in 2016.

2.1 Statements of principles

The Commons Library briefing Household flood insurance (CBP-66113, 11 March 2017) includes more detail of the background to Flood Re.

The Government and the Association of British Insurers (ABI), which represents the industry, had worked together to agree various statements of principles that aimed to ensure that flood insurance would be available for as many customers as possible. The first agreement came into effect in 2003.[16]

This approach emphasised that insurance would "be offered in a competitive market". But continued provision of insurance would depend on Government action to reduce flood risk by investing in defences.[17]

In developing the approach, the ABI said in 2002 that:

- about a tenth of UK homes and businesses were built "in the floodplain", but that three-quarters of these were already protected at or above the Government's minimum standards, so insurers would be willing to cover them
- insurers would also continue to cover policies relating to properties in areas where flood defences were scheduled to be completed by 2007
- insurers would consider providing cover for other properties on a case-by-case basis[18]

The ABI and the Government published an updated statement in 2008. It was intended to run until July 2013 (but in the event carried on until Flood Re launched in 2016). While it maintained the insurance industry's commitment to offer cover to the most householders and businesses, it said that the arrangements would not apply to buildings constructed after 1 January 2009.[19]

16 "ABI Statement of Principles for flood insurance", Insurance times, 1 October 2002 (accessed 9 June 2023)
17 As above
18 As above
19 ABI, Revised statement of principles on the provision of flood insurance, July 2008 (pdf) (accessed 6 June 2023)

But the approach had limitations. Most importantly, it could not guarantee affordable insurance. As Flood Re later noted, it did not limit the cost of premiums or excesses offered to existing policy-holders. Nor did it guarantee cover to new customers. Meanwhile new insurers were able to rely on more reliable data about flood risk and exclude many customers altogether, "resulting in a distortion in the home insurance market."[20]

2.2 Developing Flood Re

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

- The insurance industry would establish and run Flood Re as a not-for-profit entity that would provide "affordable flood insurance to households at high flood risk". It would be a transitional arrangement and be phased out in 20-25 years.
- Member firms of the scheme would initially contribute £180 million to fund it. This represented a levy of £10.50 on all household insurance premiums.
- Flood Re would be designed to cope with estimated losses in "at least 99.5% of years." If losses exceeded that level, the Government would work with the insurers to decide "how any available resources should be distributed to Flood Re customers." The Government would also make a commitment to fund long-term flood risk management.
- The Government would legislate to require all firms offering home insurance to participate in the scheme. The insurance industry would maintain its commitments made under the 2008 statement of principles until the new scheme was in place.[21]

The Water Act 2014

The legislative framework for Flood Re was included in Part 4 of the Water Act 2014.

The detailed relevant regulations for the scheme were set out in two Statutory Instruments:

- The Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015

[20] Flood Re, Regulation 27: The Quinquennial Review, July 2019 (pdf), p12 (accessed 6 June 2023)
[21] Defra, Flood Re: Memorandum of Understanding, June 2013 (pdf) (accessed 6 June 2023)

- The Flood Reinsurance (Scheme funding and Administration) Regulations 2015

During the Public Bill Committee that examined the Bill as it progressed through the House of Commons, Dan Rogerson, then Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs, said that the scheme was intended to end within 25 years. This would enable the insurance industry to move to "risk-reflective pricing." For its part, the Government would "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."[22]

After consulting on detailed rules for the scheme, Defra published various clarifications in December 2014, including the following:

- Flood Re and the Government would have to decide what to do in a situation worse than the planned one-in-200-year event, although initial contractual responsibility would pass back to the insurers.[23]
- Properties that are rented out would not be included for buildings insurance, but leasehold properties would be for contents insurance.[24]
- Small businesses would not be covered. The Government and the ABI would continue to work together to monitor the situation.[25]
- Flood Re would now cover properties in council tax Band H.[26]
- The cut-off date for eligibility would not be changed from 1 January 2009.[27]

22 PBC, 12 December 2013, c257
23 Defra, Government response to the public consultation on the Flood Reinsurance Scheme Regulations (pdf), December 2014, p22-23
24 As above, p21
25 As above
26 As above
27 As above

3 Flood Re's progress

Flood Re began operating in 2016. Its initial priority has been to give eligible householders access to affordable insurance. In its 2023 annual report,[28] Flood Re said that in the year to 31 March 2023:

- It covered over 265,000 policies.
- Among policy-holders who had previously made flood claims, 4 out of 5 had seen the cost of premiums fall by over half.
- 99% of householders in properties at high risk of flooding could find quotes from 15 or more insurers. (Before Flood Re was set up, fewer than one in ten such consumers could get quotes from two or more insurers.)[29]

In 2018, Defra undertook a study of the availability and affordability of insurance,[30] 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 they were paying 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.[31]
- 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.[32]
- 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.[33]

While the evidence quoted by Flood Re suggests that the scheme appears to have achieved its initial goal, it's important to remember that:

- the eligibility rules mean that Flood Re isn't available to all consumers

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28 Flood Re, Annual report and accounts 2022-2023: For the period 1 April 2022 to 31 March 2023, HC1414, 27 June 2023
29 As above, p8 and p10
30 Defra, Availability and affordability of insurance, July 2018
31 As above, p57
32 As above, p58
33 As above

- the scheme is based on an **offer** of reinsurance: insurers do not have to take it up, and consumers are not necessarily obliged to take out relevant insurance

Sections 4 and 5 of this briefing discuss concerns relating to these limitations.

3.1 First five-year review and changes to the scheme

The regulations that set out how Flood Re would run require it to review and report on the scheme to Defra every five years. This "quinquennial" review considers funding arrangements, as well as progress towards transition to a risk-reflective market by 2039. It makes recommendations to the Minister for any proposed significant changes to the scheme.[34]

Flood Re underwent its first such review in July 2019. The report from the review 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.[35]

The report conceded that although the scheme had become financially robust, it had yet to experience a substantial flooding incident.[36]

Transition plans and links to wider flood policy

There is more discussion of flood policy in the Library briefing Flood risk management and funding (CBP-7514).

While Flood Re found that it had helped to reduce premiums, that focus might ultimately conflict with wider policy on flood management – and indeed the eventual development of a sustainable insurance market. Early reviews of Flood Re noted this potential dilemma, not least in promoting 'moral hazard', in which consumers choose not to take precautions to protect themselves because they believe they are adequately covered by insurance. This suggested that wider investment in flood prevention and resilience would also be required.[37]

34 Flood Reinsurance (Scheme Funding and Administration) Regulations 2015, UKSI 2015/1902, Regulation 27

35 Flood Re, Regulation 27: The Quinquennial Review, July 2019 (accessed 6 June 2023), p9. The "five years" dates from the initial design of the scheme rather than its launch.

36 As above, p19

37 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 (pdf), 2017 (accessed 6 June 2023).

The scheme had been launched with an initial transition plan in 2016.[38] Flood Re's second transition plan, published in 2018, argued that maintaining affordable insurance without the levy would involve addressing the factors that led to the high costs associated with flooding.[39] It promoted the need for wider efforts to:

- **reduce the risk of flooding** by investing in flood risk management and defences, and by considering flooding in planning and development
- **reduce the damage and costs of flooding** by improving flood resilience and resistance (in products, community awareness and response, and in housing stock in general), as well as by reducing the cost of remedying flood damage
- **achieve an effective market** by improving flood modelling, better consumer knowledge of flooding and insurance, more active consumer engagement with the market, and planning for a smooth market exit for Flood Re[40]

The plan also proposed dealing with the challenge of "the limits of affordability" by continuing to support those with "unavoidably high level of flood risk" and reducing the overall size of the highest risk group.[41]

Changes to the scheme

Further to these considerations, Flood Re submitted some recommendations for change to the Secretary of State for approval in June 2019. They were:

- allowing the scheme to offer discounts on premiums for properties that had fitted property flood resilience (PFR) measures[42]
- allowing payment of claims to include an element of "resistant and resilient repair, above and beyond the loss", as part of a wider "Build Back Better" strategy that would help reduce future risk[43]
- changing the legal purpose of Flood Re to refer to an ultimate goal of "**affordable** risk-reflective pricing"[44]

Flood Re also made several recommendations relating to the way the scheme was financed, most importantly reducing the annual Levy paid by all insurers (not just those benefiting from Flood Re) from £180 million to £135 million. It said that this was now possible because the scheme had reached its initial capacity and liquidity needs. Flood Re argued that doing this, and scheduling

38 Flood Re, Transitioning to an affordable market for household flood insurance: The first Flood Re transition plan, February 2016 (accessed 6 June 2023)
39 As above, p6
40 As above, p9-10
41 As above, p11
42 As above, p50-53
43 As above, p54-60
44 As above, p61-63

reviews of the Levy and the scheme's overall liability limit every three rather than five years, would help it respond more flexibly to risk.[45]

In February 2021, Defra consulted on the amendments proposed by Flood Re, with the exception of the change of statutory purpose.[46]

It also asked about allowing Flood Re to spend any surpluses on a wider range of activities to promote uptake of PFR,[47] and about reducing premiums for properties in lower council tax bands. This question aimed to explore some of the concerns about access to flood insurance raised by the Blanc review in late 2020.[48] (See section 5.2.)

In its summary of responses published in July 2021, Defra said that it would take forward the proposals on discounted premiums relating to PFR, Build Back Better and the financial amendments. It said that it would "carefully consider" allowing Flood Re to spend any surpluses. But it chose not to reduce premiums for properties in lower council tax bands, and would instead explore other approaches to encourage uptake of insurance.[49]

After it gained Parliamentary approval for reduction of the levy,[50] Flood Re implemented changes to support Build Back Better and the financial amendments from April 2022.[51]

The Government did not however implement the proposal for discounted premiums. In March 2022, Rebecca Pow, the Defra Minister with responsibility for flooding policy, said that the Government was committed to implementing the proposal, and would do so once it had published a wider property flood resilience roadmap by the end of 2022 and considered eligibility for such a scheme.[52] There were no further developments as of early July 2023.

While the changes to the wider levy reduced the wider subsidy of the scheme by all household insurers (see section 1.1), in April 2023 Flood Re increased the cost charged to insurers for ceding individual premiums by 3.4%.[53]

In June 2023, Flood Re's annual report for 2022/23 stated that 63% of insurance providers had agreed to offer the Build Back Better option.[54]

Flood Re expects to publish its next transition plan in July 2023.[55]

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45 Flood Re, Regulation 27: The quinquennial review, p33-41 (accessed 6 June 2023)
46 Defra, Amendments to the Flood Re scheme: Consultation, 1 February 2021, p6-13
47 As above, p14-15
48 As above, p16-17
49 Defra, Amendments to the Flood Re scheme: Summary of responses, July 2021, p60
50 The Flood Reinsurance (Amendment) Regulations 2022, UKSI 2022/383
51 Flood Re, "Our future" (accessed 6 June 2023)
52 UIN 126682 [Insurance: Flood Control], 1 March 2022
53 Flood Re, "Flood Re premium changes", 31 January 2023 (accessed 30 June 2023)
54 Flood Re, Annual report and accounts 2022-2023: For the period 1 April 2022 to 31 March 2023, HC1414, 27 June 2023, p8
55 Flood Re, "Our future" (accessed 6 June 2023)

4 Limitations of Flood Re's design

The initial purpose of Flood Re was to make affordable flood protection insurance available to eligible domestic customers.

Nevertheless, the scheme was set up within strict parameters. This section highlights concerns about some of them, while section 5 considers wider questions about awareness and take-up of flood insurance.

4.1 The 2009 cut-off date for inclusion: links to planning

As noted in section 2, the exclusion of properties built after 2009 reflected both the arrangements made in the earlier statements to meet the concerns of the insurance industry to contain costs and Government efforts to discourage further development in floodplains.

Flood risk management is a devolved matter. The Library briefing Flood risk management and funding (CBP-7514) gives an overview of relevant planning policies across the UK.

But a 2020 article by the "liberal conservative think tank" Bright Blue questioned the equity of the cut-off date. It argued that homebuyers might unwittingly be left without access to cover and that this could lead to the emergence of "insurance blackspots".[56]

The ABI strongly rejected the suggestion, highlighting the potential cost to all consumers. It argued that "[w]e 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."[57]

Nevertheless, the Financial Times reported that a senior executive at Aviva did suggest extending coverage to newer housing, although he acknowledged the importance of improving planning and flood resilience.[58] The same newspaper had reported in December 2019 that tens of thousands of homes were planned to be built in high-risk areas in England.[59]

56 "High and dry?: Preventing tomorrow's "flood ghettos"", Bright Blue, 21 February 2020 (accessed 7 June 2023)

57 "ABI responds to Bright Blue's analysis entitled High and dry: Preventing tomorrow's 'flood ghettos'", ABI, 21 February 2020 (accessed 7 June 2023)

58 "Call for UK flood insurance scheme to be extended", Financial Times, 2 February 2020 (accessed 7 June 2023)

59 "Thousands of new homes to be built on England's floodplains", Financial Times, 21 December 2019 (accessed 7 June 2023)

In the 2021 consultation on changes to Flood Re, Defra defended the existing approach, arguing that planning arrangements in place since 2006 meant that housing development in flood-risk areas was required to be "safe and appropriately flood resilient", so relevant premiums for newer homes should be affordable.[60]

The issue has since been considered twice in Parliament. In November 2021 Emma Hardy introduced the Flooding (Prevention and Insurance) Bill under the ten-minute rule. The Bill included a provision to extend Flood Re's cut-off date. While she accepted the logic of the date, Emma Hardy said that "in too many cases" people found themselves living in high-risk areas with neither flood resilience measures nor Flood Re cover. She said that her Bill would also prohibit new building without adequate resilience measures in such areas.[61] (Like most ten-minute Bills, the Bill was not given parliamentary time to progress further.)

In May 2023 the Baroness McIntosh and Baroness Hayman raised similar concerns in a set of amendments to the Levelling Up and Regeneration Bill. Speaking on behalf of the Government, Baroness Bloomfield reiterated the planning requirements in place and the underlying logic of Flood Re. The amendments were withdrawn.[62]

4.2 Cover for commercial properties

Flood Re applies to the domestic insurance market only.

In an adjournment debate on the matter on 8 February 2016, the then Flooding Minister, Rory Stewart, outlined the arguments against an equivalent scheme for businesses. He emphasised the "complexity" of flood insurance for businesses in general, including variability in size and coverage. But he acknowledged that something had to be done and agreed to discuss the problem with the industry.[63]

The trade magazine Insurance Post confirmed that such a meeting soon took place but had concluded that a Flood Re scheme for SMEs was "fundamentally challenging". The article noted that a survey by the Federation of Small Businesses had 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.[64]

60 Defra, Amendments to the Flood Re scheme: Consultation, 1 February 2021, p3
61 HC Deb 16 November 2021, c472-475
62 HL Deb 3 May 2023, c1555-1570
63 HC Deb 8 February 2016, c1414
64 "SME flood scheme 'challenging to implement despite government talks'", Insurance Post, 18 February 2016 (accessed 7 June 2023)

A study by Defra in 2017/18 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 also found “little concern” about availability.[65]

The British Insurance Brokers’ Association (BIBA) launched a flood insurance service for businesses in December 2016.[66] It has since been incorporated into the Flood Insurance Directory jointly managed by BIBA, the ABI and Flood Re.[67]

BIBA also presented evidence to the Environment, Food and Rural Affairs Committee’s 2021 Inquiry into Flooding about some of the services it offered to businesses. It noted that it was harder to apply risk-reflective prices to businesses.[68]

The Committee went on to urge the Government to do more to help ensure SME access to affordable flood insurance.[69] In its response, the Government repeated its view that the was little evidence that businesses found it hard to find insurance.[70]

The 2021 Defra consultation on changes to Flood Re said that the scheme would not be extended to businesses, reiterating the differences in the market and the lack of demand.[71]

4.3 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, noted that such cover was meant to be provided through business insurance. She noted the difficulties of translating the Flood Re approach into such cases:

> 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

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65 Defra, Availability of insurance for small businesses, June 2018

66 The Flood Hub, “Business Flood Insurance” (accessed 7 June 2023)

67 BIBA, ”Welcome to the BIBA and ABI Flood Insurance Directory”, 23 February 2022 (accessed 27 June 2023)

68 Environment, Food and Rural Affairs Committee, Flooding, HC170, Written evidence submitted by The British insurance Brokers’ Association (BIBA)(FLO0050)

69 Environment, Food and Rural Affairs Committee, Flooding, HC 170, 8 February 2021, para 108

70 Environment, Food and Rural Affairs Committee, Flooding: Government Response to the Committee’s Fourth Report of Session 2019–21, HC1385, 30 April 2021

71 Defra, Amendments to the Flood Re scheme: Consultation, 1 February 2021, p3-4

> 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.[72]

In December 2017, while acknowledging that there were continuing difficulties for some, Dr Coffey said that neither the ABI nor BIBA "ha[d] identified a significant problem for leasehold properties accessing flood insurance". She also highlighted "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."[73]

BIBA told the Environment, Food and Rural Affairs Committee's 2021 Inquiry into Flooding that such leaseholders would pay for buildings cover via management fees. It argued that up to a million householders might be affected by this exclusion –and that extending Flood Re to cover them would not be subsidising commercial insurance. It called for more information about the availability of contents cover to leaseholders and for the exclusion to be reconsidered.[74]

When Tulip Siddiq, the shadow Economic Secretary, raised concerns about the issue in May 2022, the Minister, Rebecca Pow, again noted that relevant building cover would come under "landlord insurance", a type of commercial insurance. She again referred to the lease variation scheme previously mentioned by Dr Coffey, as well as the signposting available on the BIBA website.[75]

The Evening Standard reported in March 2023 that councillors from four London local authorities had written to Dr Coffey, now the Environment Secretary, calling for Flood Re's eligibility criteria to be widened. They said that some residents' premiums had doubled since flooding in 2021. Defra said it would reply in due course.[76]

72 HC Deb 6 December 2016, c55
73 PQ 115818 [Floods: Insurance], 27 November 2017
74 Environment, Food and Rural Affairs Committee, Flooding, HC170, Written evidence submitted by The British insurance Brokers' Association (BIBA)(FLO0050)
75 UIN 8091 [Flood Control: Housing], 24 May 2022
76 City of Westminster, Royal Borough of Kensington and Chelsea, Camden, and London Environment Directors' Network, DEFRA Flood Insurance and Property Resilience Team (pdf) (accessed 3 July 2023),"Flood victims need urgent help, council leaders tell Therese Coffey", Evening Standard, 20 March 2023 (accessed 8 June 2023)

5 Wider concerns about household flood insurance

Widespread damage caused by severe floods across the UK from summer 2019 and into the first months of 2020 highlighted wider issues about the household flood insurance market.[77]

Members of Parliament raised concerns planning and flood management, limited awareness and take-up of insurance, as well as the exclusion of flood cover and "unscrupulous" practice by insurers.[78]

In response, the Government commissioned an independent review into how well people and businesses in Doncaster were protected by insurance. The Blanc review, published in 2020, found a "worrying" level of householders in Doncaster, particularly tenants, had no flood cover (and often no contents insurance at all).[79]

Issues raised in the review led to various initiatives, notably:

- the launch of a Flood Insurance Directory to help householders and businesses find affordable cover, whether they are eligible for Flood Re or not[80]
- a voluntary agreement by insurers and brokers to ensure that eligible customers are offered policies covered by Flood Re[81]
- a commitment on the part of the Government and the insurance industry to continue to promote communication and awareness of relevant issues[82]

Understanding the effectiveness of such responses will depend in part on a repeat of Defra's 2018 survey of the affordability and availability of

[77] See the Commons Library briefing Autumn and winter floods 2019-20, CBP-8803, 10 March 2020
[78] See, for instance, HC Deb, 30 Jan 2020 [Flooding: South Yorkshire], c385-400WH
[79] Defra and others, Independent review of flood insurance in Doncaster, 5 November 2020, p5
[80] BIBA, "Welcome to the BIBA and ABI Flood Insurance Directory", 23 February 2022 (accessed 27 June 2023)
[81] BIBA and ABI, Agreement for signposting households experiencing difficulty accessing flood insurance, 22 February 2022 (accessed 4 July 2023)
[82] Defra, Government response to the independent review of flood insurance in Doncaster, 29 July 2021

insurance.[83] Defra said that it aimed to complete this repeat study by May 2022, but no further information had been published as of July 2023.[84]

5.1 The Blanc review

In 2020 the Government appointed Amanda Blanc, formerly chair of the Association of British Insurers, to examine the experience of Doncaster in order to consider:

- the level of insurance cover held by those most affected and the barriers they faced
- whether the evidence suggested any "systemic issues" in flood insurance provision, or "any other issues regarding availability, affordability, barriers, or dissatisfaction with insurance coverage"[85]

The report of the review was published in November 2020.[86] It highlighted that a "worrying" level of residents – particularly tenants – did not have cover:

> - While the vast majority of owner-occupiers surveyed had **general** buildings or contents insurance (97%) or both (95%), 6% reported that that their buildings insurance had flood exclusions, as did 6.5% of contents policies. 21% were not sure.
> - Only 25% of tenants confirmed that they had flood cover through contents insurance; 50% said that they did not. 45% said that they had no contents insurance at all. 37% were not sure whether their landlord had buildings insurance.[87]

The review also suggested that there were wider potential issues with mistrust and poor understanding of the insurance industry.[88]

The report made a series of recommendations and wider observations, most grouped under specific themes, as presented in the next section.

It also called for a repeat of Defra's 2018 survey into the affordability and availability of insurance by 2022, with an assessment of how many policies did not cover flooding.[89] It said that if that survey found an unacceptable level of exclusions, the Government should consider asking the Financial Conduct

83 Defra, Availability and affordability of insurance, July 2018
84 Defra, Letter to the Chair of the Public Accounts Committee: Forty-fifth Report of Session 2019-21: 'Managing Flood Risk', 7 April 2021
85 Defra and others, Flood insurance review 2020: Doncaster
86 Defra and others, Independent review of flood insurance in Doncaster, 5 November 2020
87 As above, p5
88 As above
89 As above, p6

Authority to consider imposing stronger guidelines or regulation to deal with the situation.[90]

Defra said in April 2021 that it intended the study to begin in April 2021 and to run until May 2022.[91] The findings from that research are likely to highlight continuing challenges and the wider effectiveness of initiatives to date, but it had not been published as of June 2023.

5.2 The Blanc review: recommendations and responses

Availability and knowledge of Flood Re buildings cover

The report suggested inconsistencies in the way that policies supported by Flood Re were being offered. It worried that people on low incomes in particular might choose not to pay for cover at all, while others might not be aware of better and cheaper policies. Some brokers reported finding it difficult to secure policies covered by Flood Re.

The report recommended that:

- If brokers couldn't find cover for customers eligible for Flood Re, they should if possible direct them to someone who could help them. It should warn them of the consequences of accepting a policy with flood exclusions or high excesses.
- Insurers and brokers should not offer policies with such exclusions or excesses unless customers specifically asked for them and understood the consequences.
- The ABI and BIBA should develop a code of practice and ensure that members comply with it. They should support this by developing a signposting service that would help customers and brokers to find appropriate cover.[92]

Responses

BIBA, the ABI and Flood Re jointly launched a Flood Insurance Directory in February 2022.[93] As well as meeting the Blanc review's recommendation, it signposts consumers to brokers and insurers who can help them to find affordable flood insurance, whether covered by Flood Re or not. They also announced that through a voluntary agreement, implemented from

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90 Defra and others, Independent review of flood insurance in Doncaster, 5 November 2020, p8

91 Defra, Letter to the Chair of the Public Accounts Committee: Forty-fifth Report of Session 2019-21: 'Managing Flood Risk', 7 April 2021.

92 Defra and others, Independent review of flood insurance in Doncaster, 5 November 2020, p8

93 BIBA, "Welcome to the BIBA and ABI Flood Insurance Directory", 23 February 2022 (accessed 27 June 2023)

September 2022, firms would signpost consumers facing flood exclusions or no cover at all to the directory.[94] [95]

The Government said that it would monitor the implementation and effect of these initiatives.[96]

Supporting tenants

At 45%, the level of contents cover among tenants in Doncaster was lower than the 61% for England in 2018.

The report highlighted the importance of increasing tenants' awareness of their situation and the options available to them. It recommended that:

- The Government should ensure that social and private landlords in high-risk areas tell tenants about what buildings over is in place, as well as what arrangements are in place in case of a flood. It should consider legislating to ensure that landlords hold buildings insurance that protects tenants if the property becomes uninhabitable for an extended period.
- Local authorities should inform tenants about the risks they face in the event of a flood and how insurance cover can protect them.
- As well as promoting awareness, the Government might support uptake of contents insurance by reviewing the level of the Flood Re premium in lower council tax bands: the relevant premium was £52, while the average cost of new contents policy was £56.[97]

Responses

The Government said that it would focus its efforts on the private rented sector only because the social housing sector was already "highly regulated". It rejected the idea of legislation to support these efforts, but would review the evidence and then consider whether stronger regulation was needed.[98]

As discussed in section 3.1, the Government consulted on and chose not to reduce Flood Re premiums. It said it would instead explore other approaches to encourage uptake of insurance.[99]

94 BIBA, "Insurance sector pulls together to help those at risk of flood", 23 February 2022 (accessed 8 June 2023)
95 BIBA and ABI, Agreement for signposting households experiencing difficulty accessing flood insurance, 22 February 2022 (accessed 4 July 2023)
96 Defra, Government response to the independent review of flood insurance in Doncaster, 29 July 2021
97 Defra and others, Independent review of flood insurance in Doncaster, 5 November 2020, p9
98 Defra, Government response to the independent review of flood insurance in Doncaster, 29 July 2021
99 Defra, Amendments to the Flood Re scheme: Summary of responses, July 2021, p60

Businesses

Given low participation rates in the survey, the report was unable to make any firm conclusions relating to businesses, although it did note mixed experiences among those that did. But it did note that with the widespread move to home working during and perhaps beyond the Covid-19 pandemic, it would be worth reviewing the situation in future.[100]

Wider views of insurance

The report noted that many people find the whole concept of insurance daunting or hard to understand, and others do not trust insurers or see the value of cover. The report argues such attitudes are particularly troubling in areas of high flood risk. So it recommended the following special efforts:

- Flood Re, the Environment Agency and the ABI should undertake targeted engagement in high-risk areas. This should cover the risk of flooding, a simple explanation of flood insurance, where and how to find it, and what happens when a claim is made.
- When a flood event occurs, local authorities should review the demographics and tenancy rates of the affected area so that they can respond appropriately.[101]

Responses

Both the ABI and BIBA welcomed the report as whole, with the latter in particular highlighting the value of improving information and signposting for consumers (and the wider responses highlighted above).[102]

In its 2023 annual report, Flood Re reported that it continued to work with partners to improve consumer awareness "through highly targeted communications and campaigns."[103] In line with Flood Re's wider objectives, though, much of this increasingly focuses on awareness of flood resilience rather than simply insurance. This is, for instance, the focus of the Be Flood Smart campaign that Flood Re launched in partnership with the Environment Agency in May 2023.[104]

While the Government acknowledged the value of taking account of local demographics to ensure an appropriate response after a flood, it said it did not wish to impose further duties on local authorities. It noted that there

100 Defra and others, Independent review of flood insurance in Doncaster, 5 November 2020, p10
101 As above, p10
102 ABI, "ABI responds to The Independent Review of Flood Insurance in Doncaster", 5 November 2020 (accessed 8 June 2023); BIBA, "BIBA responds positively to the publication of the Independent Review of Flood Insurance in Doncaster", 5 November 2020 (accessed 8 June 2023)
103 Flood Re, Annual report and accounts 2022-2023, HC1414, 27 June 2023, p12
104 The Flood Hub, "Flood Re launches 'Be Flood Smart' campaign in partnership with Environment Agency", 22 May 2023 (accessed 3 July 2023)

would be a wider review of local resilience forums in due course, as set out in the Government's Resilience Framework, published in December 2022.[105]

5.3 Wider commentary

The Blanc review crystallises some of the wider concerns relating to the UK flood insurance market and its uptake.

- Ed Miliband, MP for Doncaster, welcomed the review. But he wondered whether the recommendations were strong enough to deal with continuing limitations in the flood insurance market, as well as wider difficulties some consumers faced in settling claims.[106]
- The Public Accounts Committee published a report into managing flood risk in February 2021. It too expressed concern about the apparent continuing difficulties with flood insurance highlighted by the Blanc review.[107] Defra replied in April 2021, highlighting its proposed repeat research study.[108]

More recently, and as discussed in section 4.3, representatives of four London local authorities wrote to Defra in March 2023. In addition to highlighting the limitations of Flood Re's eligibility criteria, they noted mismatches between assessments of risk by insurers and Thames Water, which they said led to problems finding cover. They also called for better information and guidance for residents about access to flood insurance.[109]

105 Cabinet Office, The UK Government Resilience Framework, 19 December 2022

106 "Too many people in flood-hit Doncaster were without insurance, says major review by Aviva chief Amanda Blanc", Yorkshire Post, 5 November 2020 (accessed 8 June 2023)

107 Public Accounts Committee, Managing flood risk, HC 931, 26 February 2021, p6

108 Defra, Letter to the Chair of the Public Accounts Committee: Forty-fifth Report of Session 2019-21: 'Managing Flood Risk', 7 April 2021

109 City of Westminster, Royal Borough of Kensington and Chelsea, Camden, and London Environment Directors' Network, DEFRA Flood Insurance and Property Resilience Team (pdf) (accessed 3 July 2023)

Annex 1: Eligibility criteria for insurance cover under Flood Re

This is the information on Flood Re's website as at 8 June 2023.[110]

> 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;

110 Flood Re, "Qualifying policies which may be ceded to Flood Re" (accessed 8 June 2023)

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).

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