



Response to DEFRA consultation on Securing the future availability and affordability of home insurance in areas of flood risk, September 2013

1. Do you have any evidence of small businesses experiencing difficulty with the availability and affordability of property insurance due to the risk of flooding?

The Group has received presentations, in particular from the British Insurance Brokers' Association, indicating that there have been problems in areas, such as Cockermouth, that have previously suffered from severe flooding.

2. Do you agree with the Government's policy objective for flood insurance?

Ensuring that flood cover for domestic property continues to be widely available and affordable in areas of flood risk without placing unsustainable costs on policyholders or the taxpayer or jeopardising the viability of insurers has been a key theme of the Group's work over the last year, so we support the latest initiatives.

3. Do you agree with the approach taken to analysing the different potential solutions in the Impact Assessment?

The criteria and methodology seem fine.

4. Do you agree with the evidence presented in the Impact Assessment?

Yes.

5. Do you have any further evidence which has not been considered in the Impact Assessment?

No.

6. Do you support the Government's proposed approach?

Broadly, yes but with some concerns which are generally covered below apart from the Group's concern over the lack of clarity on whether some types of small business are included. This is especially the case where residential and business accommodation is mixed within the same property. We believe that these properties should be included in the scheme and that the business section of the premises and its contents should be covered too.

7. If the remaining challenges associated with Flood Re prove too difficult to overcome, what factors do you think should be taken into account ahead of any decision on whether or not to introduce the Flood Insurance Obligation?

The fear would be that without any cap on liabilities some insurers could withdraw entirely from the market rather than accept their proportion of flood-prone properties. This would place a larger burden on the remaining insurers which, in turn, might force more out of the market. It could become a dangerous spiral.

There would be a need for the Government to clarify exactly when it would step in (see below).

8. Do you agree that setting eligibility thresholds according to council tax bands (or their equivalents in the Devolved Administrations) will help ensure Flood Re support is targeted towards those households who need it most, without requiring significant administration? Is there a better method?

It is rating by proxy but if it is acceptable to the European competition authorities then it looks as good a system as any. It has the advantage of being widely known and divorced from insurers' existing rating systems which should help head off potential complaints about unfairness.

The Group, however, does not agree with the exclusion of Band H properties. We understand that some at the very top end will be able to obtain insurance in highly specialised markets but others will not and it seems unfair to exclude them.

9. Do you have any views on the proposed initial “eligibility thresholds” within Flood Re which would effectively cap the technical flood risk premium paid by high risk thresholds?

Some organisations that have presented to the Group have advanced the view that more needs to be done to reduce the cost to lower income households and the Group believes this is worth further consideration.

10. Do you agree that the following should be excluded from Flood Re:

(a) Band H properties?

We disagree, Band H should be included.

(b) New homes built after January 2009?

There has to be a cut-off but we are not sure the case has been made for 2009 specifically. The main concern the Group has with any retrospective cut-off is the quality of the available flood mapping information at the time. With better data becoming available all the time some properties built recently may now be understood to be in a flood prone area while that wasn't known at the time they were given planning permission and built.

(c) Genuine uninsurable properties? If so, how would you define these in a consistent way that insurance companies can apply?

The Group disagrees with the genuinely uninsurable property proposal. All inhabited domestic properties with a Council Tax rating should be included. Nothing should be considered uninsurable under the Flood Re scheme.

11. Should other exemptions also apply?

No.

12. Do you agree that Flood Re should apply to both buildings and contents insurance?

Yes, the Group believes that anything less would not be acceptable to the public.

13. Do you have any comments on the proposed way of managing Flood Re's exposure to larger losses?

If we have understood the proposal correctly, there seems to be a gap of approximately £100m between the income collected from Flood Re and the reinsurance starting level (the gap is roughly between £150m and £250m). We think there needs to be greater clarity on how this might be funded.

The Group also believes that the Government must be very clear on its role in the case of extreme, large-scale 1-in-200 year events, which neither Flood Re nor the commercial market could cope with. These would be a major national disaster with severe damage to infrastructure and possible loss of life. It would require a co-ordinated national response and considerable Government money to support the emergency services, local authorities and the insurance market. Honesty is needed here.

14. Do you think a levy equating to around £10.50 per UK household, which the ABI estimate is equivalent to the current cross-subsidy, is acceptable to help address the problem of securing affordable flood insurance for high risk households?

This is a welcome degree of transparency.

15. Do you agree that Flood Re will secure the availability and affordability of household flood in the UK?

Only if the issues raised in response to question 13 are addressed.

16. Do you agree that the Flood Insurance Obligation has the potential to meet the policy objective?

See the concerns about insurers withdrawing from the market that we raised in response to question 7.

17. Do you agree that the Secretary of State should have the power to exempt some firms operating in the UK domestic insurance market from the Obligation, eg those with market share a de minimis?

The Group would be concerned that too many insurers might press to take advantage of this exemption and the definition of 'de minimis' could creep up, leaving the remaining market picking up an unnecessarily large share.

18. Do you agree that at this stage Ministers should have the option of applying the Obligation to both building and contents insurance?

Yes.

19. Do you agree that the Environmental Agency should be granted powers to act as a 'lead administrator' working with the devolved administrations to compile a UK-wide register that lists by address each domestic property at high risk of flooding?

Yes, this should be freely available to the industry and policyholders.

20. Do you agree with the broad duties envisaged for the regulator? Is anything missing?

Yes, we agree.

21. Which of the approaches to supervising compliance with the Obligation do you believe is best suited to delivering the policy objective while minimising the burden on business and consumers? Is there another approach not considered here?

The Group doesn't have a view on this

22. Which of the approaches to imposing sanctions for non-compliance with the Obligation do you believe is best suited to delivering the policy objective while minimising the burden on businesses and consumers? Is there another approach not considered here?

The Group doesn't have a view on this

23. The regulator

The Financial Conduct Authority should be the regulator as it is already the lead regulator in this sector and to impose another regulator would increase costs and bureaucracy.