

British Property Federation response to:

DEFRA's consultation on 'Securing the future availability and affordability of home insurance in areas of flood risk'

1. The British Property Federation (BPF) is pleased to respond to the consultation by the Department for Environment Food and Rural Affairs on 'Securing the future availability and affordability of home insurance in areas of flood risk'.
2. The British Property Federation is the voice of property in the UK, representing companies, owning, managing and investing in property. This includes a broad range of businesses comprising commercial and residential property owners, housing associations and financial institutions including pension funds, corporate property owners as well as a number of regional landlord associations. A list of our largest members can be found at the following link: http://www.bpf.org.uk/en/members/our_members.php
3. This response will not directly address the individual questions that have been posed in the consultation but will respond on a thematic basis. Firstly, we will address the proposals under 'Flood Re', secondly, we will look at the proposals for the Flood Insurance Obligation as a potential alternative to Flood Re and finally we will draw our conclusions on both schemes and point out any further issues we feel need to be addressed. We would be delighted to provide any further information or clarification on any aspect of our response on request. In the first instance, please contact Stephanie Pollitt, Senior Policy Officer, Tel: 0207 802 0104 or Email: spollitt@bpf.org.uk

General response

4. Flood remains a topical subject for the property industry and the insurance sector has provided an ever increasing focus on seeking out a solution due to increased claims costs. Market forces have made insuring against flood risk expensive or even impossible for those worst affected and we believe that the proposal of Flood Re is a positive move to level the playing field and ensure the availability of insurance in the future.
5. The property industry has, over recent months, experienced much uncertainty over whether flood insurance would continue to remain available and affordable following the expiry of the Statement of Principles. Whilst we were pleased to see that the ABI's members had agreed to continue their obligations to insure people from flood beyond June 2013; we

remained frustrated that a more permanent solution had not been established. We therefore very much welcome the Government's consultation and believe that, once established, Flood Re will provide much needed certainty to homeowners through the capping of flood insurance premiums.

Policy Objective

6. We support the policy objective to ensure that domestic property insurance continues to be widely available and affordable in high flood risk areas. We also agree that the gradual transition towards risk-reflective pricing is a sensible suggestion but arguably it is imperative that this is based on robust local and regional evidence.

SMEs

7. We appreciate that priority has been given to ensuring the availability and affordability of flood insurance in the residential sector but we are concerned to see that SMEs have been excluded from the proposals. In 2012, the RICS produced a research report on the impact of flooding on SMEs. The report noted that SMEs not only experienced direct impact from flooding events such as damage to stock, but also indirect impacts, such as travel difficulties for customers and suppliers. The results of the survey indicated that SMEs had seen a marked increase in their property insurance premiums and excesses, which had on average increased by approximately 1750% compared to pre-flood excesses.¹ SMEs are generally more vulnerable to the effects of flooding compared to larger businesses that will have put in place contingency plans to deal with such events and have the negotiating strength to secure insurance on acceptable terms. Without sufficient reserves to fall back on, SMEs will be more exposed to the effects of flooding and it is, therefore, important that they are able to access affordable insurance in order to ensure that they are able to mitigate the worst impacts against their business.
8. We believe that the obligations under the Statement of Principles pertaining to SMEs should also be upheld under Flood Re and as such would ask that Government consider extending Flood Re to cover SMEs.

Flood Re

9. The BPF supports the Government's approach to securing the availability and affordability of flood insurance through the implementation of Flood Re. Since its anticipated expiry, uncertainty on what would be replacing the Statement of Principles has left many homeowners in a state of flux. The ABI's own figures suggested that, should an agreement not be put in place, an estimated 200,000 homes could face problems accessing affordable insurance.² This poses particular problems for homeowners who may not only find themselves in breach of their mortgage obligations to their lender, but also facing a devaluation of their properties which ultimately become unsellable. We are therefore

¹ RICS Research: Impacts of flooding on SMEs and their relevance to Chartered Surveyors, September 2012

² ABI Statement on Flood Insurance, November 2012

pleased to see that Flood Re seeks to ensure that flood insurance is not only widely available for those at most risk and on low incomes, but that greater certainty is provided via the capped flood insurance premium. We agree that Flood Re should apply to both buildings and contents insurance particularly as most insurance policies are purchased jointly.

Exclusions

10. Whilst we are supportive of Flood Re, we do have a number of reservations relating to the excluded properties that have been identified. We agree that setting the eligibility thresholds in accordance with council tax banding is a sensible suggestion but we are concerned that Band H properties have been excluded. We do not feel there is sufficient justification to exclude these properties and indeed the consultation document provides little explanation as to why Band H properties have been omitted. We understand that Flood Re is primarily aimed at ensuring lower income households are still able to access insurance and that those living in Band H properties are likely to be able to afford the premiums and excesses that insurance companies command. However, if insurance cannot be accessed a lender is unlikely to agree to mortgage an uninsured property resulting in a decrease in its overall value. Flood Re should be inclusive across the country's property stock and therefore the contribution of Band H properties should also be counted towards it.
11. Similarly, we disagree that all new properties built after January 2009 should be excluded. We appreciate that this is to help prohibit development on flood risk areas but we do not feel that it is up to Flood Re to frame how future development is carried out. Its primary role must be to insure against flood. Development must be formally monitored and controlled through effective and stringent planning regulations. Although it may be unpalatable to include properties built after 2009 within the Flood Re arrangements, we suggest that a way to do this must be found if those properties are not to suffer immediate blight – with the obvious consequences of social and community breakdown. The number of properties at risk must be relatively small and those, in many cases, reflect a failure of the planning system that allowed them to be built in the first place
12. It may also be prudent to encourage property owners to take greater responsibility for their risk by requiring them to implement simple flood defences or flood damage mitigation measures. Similarly, and as noted in the Memorandum of Understanding, Government has elected to make flood data available to insurers and whilst we agree this is a worthwhile exercise in helping to form future decision making, we would like to see it extended to property professionals and the public in order to help them assess property viability, valuation and risk.
13. Finally, we note that genuinely uninsurable properties will also be excluded. Again, little explanation is put forward as to what constitutes a genuinely uninsurable property and we feel that further clarification on this is paramount. The document proposes that such properties may include those that have been unable to secure flood insurance due to already their high risk status. Whilst we appreciate that these properties pose a greater imposition on the cost of Flood Re, we do feel that Flood Re should include those properties.

However, it may be prudent to build in certain caveats when looking to cover this group.

14. We agree that the cross-subsidy levy of £10.50 is acceptable. We acknowledge that there may be particular issues where low risk properties are seen to be subsidising high risk properties, but the difficulties in trying to attribute a proportionate levy according to risk would be too difficult to apply.

Flood Insurance Obligation

15. We do not feel that the Flood Insurance Obligation would be a suitable alternative should Flood Re not be implemented. The proposals under the FIO are not consistent with the aims of Flood Re and the Statement of Principles and could ultimately increase the total cost base for insurance, skewing the costs of premiums and also leading to a withdrawal of insurers from the market. The result of this would be an unfair pricing structure and decreased choice for the consumer. The implementation, monitoring and regulation of the FIO would also prove difficult and time consuming with additional burdens being imposed on already resource restricted agencies.

Conclusions

16. Flood Re is an important step but we understand that much of the detail needs to be worked through. However, we remain concerned that the scheme poses additional questions and we would like to see these details ironed out as quickly as possible. On the issue of SMEs, greater consideration needs to be given to properties which are used for both residential and business purposes and for properties which have a residential element above a commercial unit. We are aware that there are grey areas within these properties and so, to balance this, we would recommend that Flood Re is extended to cover both commercial and residential property.
17. Furthermore, the proposals do not address the issue of housing associations. We have a number of housing associations in our membership and concern has been expressed as to how their status as registered social landlords is viewed within the proposals. Many housing associations are diversifying and moving away from their traditional social housing role into increasingly mixed use development schemes which incorporate both leisure and commercial property– something that has been encouraged by government. It is clear that the RSL market is falling more in line with private commercial developers and their portfolios are rapidly changing. As freeholders of their property, RSLs are responsible for insuring against all risks, including flood but the proposals do not specify whether any particular residential owner is exempt. Consequently, we are seeking clarification on this issue for the purposes of Flood Re.

Stephanie Pollitt
Senior Policy Officer