



DEFRA

Securing the future availability and affordability of home insurance in areas of flood risk

CIWEM Response, August 2013

CIWEM welcomes the opportunity to provide comments to Defra consultation on securing the future availability and affordability of home insurance in areas of flood risk. Our comments reflect the views and experiences of a range of our technical members working in flood risk management.

The Chartered Institution of Water and Environmental Management (CIWEM) is the leading professional and qualifying body for those who are responsible for the stewardship of environmental assets. The Institution provides independent comment, within a multi-disciplinary framework, on the wide range of issues related to water and environmental management, environmental resilience and sustainable development.

Consultation Questions

Q1. Do you have any evidence of small businesses experiencing difficulty with the availability and affordability of property insurance due to the risk of flooding?

CIWEM is aware of anecdotal evidence from areas affected by recent flooding where small businesses are no longer able to insure against flood due to unaffordability.

Q2. Do you agree with the Government's policy objective for flood insurance?

Yes we agree that the objective is fair; domestic property insurance should continue to be widely available and affordable in areas of flood risk without placing unsustainable costs on wider policyholders or the taxpayer.

Q3. Do you agree with the approach taken to analysing the different potential solutions in the Impact Assessment?

There does not seem to be any significant analysis of the social equity and the distributional consequences of the different models in the impact assessment.

Q4. Do you agree with the evidence presented in the Impact Assessment?

The evidence is clearly presented but we have reservations about the basis for the overall approach in terms of the treatment of social equity and distributional consequences for vulnerable elements of communities and society.

Q6. Do you support the Government's proposed approach?

We support the principle embodied by Flood Re, and we support the Government's policy objective.

Q7. 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?

We are not convinced that it will be workable, and are not of the view that it will deliver an equitable solution. It may also not be agreeable to the insurance industry which we feel should be an important consideration for any solution. This is because it represents a significant intervention in a complex market and its impact on pricing is thus extremely uncertain. The obligation relies on a register of households at high flood-risk to determine

which households insurers would compete to underwrite in order to meet their obligations. This option involves the establishment of a flood risk register. If the register incorrectly captures a household's flood risk this may lead to either unnecessary discounting of premiums (and therefore additional costs for other policyholders) or high-risk households being left without the support the obligation is intended to provide.

Flood Re

Q8. Do you agree that setting the 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?

This is a simplistic approach and although it has merits in terms of streamlining administrative costs, it may discriminate against rural communities and vulnerable groups such as the elderly, who may live in homes in a higher council tax band but are on lower incomes.

Q9. Do you have any views on the proposed initial "eligibility thresholds" within Flood Re (table 1 above), which would effectively cap the technical flood risk premium paid by high risk households?

See answer to question 8.

Q10. Do you agree that the following should be excluded from Flood Re:

a. Band H properties? If the thresholds are based on council tax bands

This may discriminate against rural communities and vulnerable groups such as the elderly, who may live in homes in a higher council tax band but are on lower incomes.

b. New homes built after January 2009?

No, a later transition date would be more appropriate for instance relating to the Flood and Water Management Act such as January 2012.

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

Any definition would have to be agreed and approved as workable by the insurance industry.

Q12. Do you agree that Flood Re should apply to both buildings and contents insurance?

Yes Flood Re should apply to both buildings and contents insurance.

Q14. 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?

Yes this is an acceptable cross-subsidy.

Q15. Do you agree that Flood Re will secure the availability and affordability of household flood insurance in the UK?

Yes we consider Flood Re will secure the availability and affordability of household flood insurance. However the government and insurance industry need to do more to help residents negotiate this complicated issue.

There is anecdotal evidence that a number of residents that are not in the Environment Agency high risk area, but are in the same postcode as those that do, still have high premiums due to the 'additional information' the insurance companies have. One insurance company would not accept information on the floor levels in a house being two meters above the modelled 100 year fluvial flood levels as evidence; they also wanted information on the drainage work the local authority had carried out. There was also no guarantee that if flood products were used it would alter the premiums either.

Insurance companies should be asked to adopt the National Flood Forum's Charter for Flood Friendly Insurance where they commit to:

- Guarantee to re-insure and offer insurance to subsequent owners.
- Publish the basis of assessing risk and setting costs, i.e. premiums and excess.
- Be transparent on how resistance and resilience measures will reduce insurance costs.
- Offer long-term contracts and loans for resistance and resilience (perhaps through the Blue Deal).
- Publish their Code of Practice with standards of service for property restoration.

Flood Insurance Obligation

Q16: Do you agree that the Flood Insurance Obligation has the potential to meet the policy objective?

We are not convinced that it will be workable, and are not of the view that it will deliver an equitable solution, for the reasons set out in our response to question 7.

Q17: 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, e.g. those with market share below a *de minimis*?

Any approach has to be agreed and approved as workable by the insurance industry.

Q18. Do you agree that at this stage Ministers should have the option of applying the Obligation to both buildings and contents insurance?

If adopted, yes it should apply to both.

Q19: Do you agree that the Environment 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?

We would prefer Local Authorities to carry out this role as they are much more aware of the local variations in risk, the make-up of local communities, are much closer to communities, and will bear the brunt of queries and challenges via Elected Members.

Q20. Do you agree with the broad duties envisaged for the regulator? Is anything missing?

See answer to question 19.

Q21. Which of the above approaches to supervising compliance with the Obligation do you believe is best suited to delivering the policy objective whilst minimising the burden on businesses and consumers? Is there another approach not considered here?

We have reservations about the overall approach. Please see answer to question 7.

Q22. Which of the above approaches to imposing sanctions for non-compliance with the Obligation do you believe is best suited to delivering the policy objective whilst minimising the burden on businesses and consumers? Is there another approach not considered here?

Any approach has to be agreed and approved as workable by the Insurance industry.

Q23. Do you agree with our preference that the Financial Conduct Authority should supervise compliance with the obligation, and be responsible for taking regulatory action against insurers who fail to meet their obligation, or should it be or the Environment Agency?

Any non-compliance should be supervised and enforced by the Financial Conduct Authority.