

Aviva response to Defra consultation re Flooding

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About Aviva

Aviva provides peace of mind for more than 34 million people across the world, protecting their families and possessions by providing insurance, savings and investment products. More than 14 million customers rely on us in the UK for protection where we insure 1 in 9 homes. We are committed to serving our customers well in order to build a stronger, sustainable business, which makes a positive contribution to society, and for which our people are proud to work.

In 2012 Aviva dealt with approximately 810,000 claims from our customers in their time of need, ranging from a car accident, to travel, to illness, to a flooded home. Additional Aviva flooding statistics:

- Frequency and cost of flooding has doubled as a percentage of overall claims in the past 8 years.
- Flood claims have consistently produced the highest average claim cost of all perils insured under a household policy.
- In 2007 flood claims accounted for 26% of our total household insurance claims costs.

Key messages:

- A. Flood Re is the most viable solution as it addresses affordability and availability issues for our customers; however several issues still remain. We believe the responsibility for remote risks over 1 in 200 year event should rest with Government.
- B. The Flood Insurance Obligation is not a viable or practical option. It will not address the issues of affordability or accessibility, would cause distortions in the normal operation of the home insurance market and may be unworkable in practice.
- C. Aviva will work with Government, the ABI, MPs and others to ensure Flood Re is developed as we believe this is the best solution for our customers at risk of flooding. If any external influences lead to Flood Re failing to materialise, we believe the only other option would be a free market with Government providing necessary financial support and prioritisation of flood defences for those at highest risk of flooding.
- D. In support of the Government Policy objectives, Aviva believes we still require:
 - Significant flood defence (capital) spend plus maintenance to match the rising risk.
 - Reform of the house purchase process so buyers are aware of any flood risk.
 - A more rigorous local planning system aligned to flood risk management strategy.
 - Resistant and resilient repairs encouraged to protect communities as well as individual households to ensure those who flood can get back to their normal lives as quickly as possible following a catastrophic event.

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?

1. No. There is wide availability of flood cover for small businesses (SMEs) in the commercial property insurance market. Unlike the domestic market, the vast majority of business transacted is through brokers who work with their clients to provide bespoke insurance solutions that meet their customer's individual needs.
2. We believe it is right for the Flood Re solution to focus on the larger household market as the number of SME's who are unable to obtain flood insurance due to them being at high risk of flooding is very small.
3. Flooding is only one of a number of perils covered by commercial property insurance with fire being the highest risk for our customers. The ABI industry figures show that in 2012 damage from both flood and storm lead to 26% of commercial property claims, compared to 41% of claims involving fire.
4. Aviva is the largest insurer for SME's in the UK and we will continue to work with brokers to find solutions for our customers that ensures that flood cover remains available and affordable for small businesses in the long term.

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

5. Yes. Aviva agree that our customers need a solution that delivers both affordable and accessible insurance against flooding with incentives in place to ensure a long term solution for flood risk management.
6. Flooding is a societal issue with the best outcome being fewer households affected by flooding in the first place which is where Government should take the lead. Government spending on flood defences and their maintenance is of paramount importance and we welcome the Government's commitment through to 2020/21. However with Met Office statistics making it clear that the risk of flooding from surface water, river and the sea is becoming ever more prevalent, it is of paramount importance that flood defence spending and their maintenance keeps pace with this increased risk.
7. Aviva believes that during the next 20/25 years, regular reviews and milestones should be in place to assess the sustainability of the policy for householders, insurers and Government. Equally what happens for each of these stakeholders at the end of the 20/25 years also needs careful consideration.
8. Of equal importance is a rigorous local planning system aligned to flood risk management strategies that ensure new properties are not built on flood plains and that all new properties are adequately protected from flooding.
9. The house purchase process also needs to make householders aware of any potential flood risk, perhaps forming part of the environmental searches required by Local Authorities when a property changes hands.
10. Aviva believes that Flood Re is the only solution that can deliver affordable and accessible insurance for customers against flood risks for the next 20/25 years. This will ensure the Government Policy objective is met as it continues to allow insurers to use their individual risk assessment data to sustain a competitive market place for flood insurance. Flood Re will

guarantee the availability of flood insurance for the highest risk homes and gives financial support to ensure that cover is affordable for most homeowners.

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

11. Yes. There is more work to do to fully analyse the figures being considered for Flood Re but we broadly support the provision of cost benefit analysis ranges.

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

12. Aviva would question the implications of a free market on availability and affordability of property insurance (in particular Annex 3 from the Impact Assessment) and believe this is under-estimated.
13. We believe the implications of a free market are likely to be more extensive than the Impact Assessment suggests due to the large number of homes at significant flood risk earmarked for inclusion in Flood Re. We believe the new market opportunities that may emerge for insurers and brokers who specialise in insurance for high flood risk properties will be limited.
14. In a free market, premiums for high risk properties will continue to be prohibitive as many customers are not paying the full rate for their flood insurance.

Q5. Do you have any further evidence which has not been considered in the Impact Assessment?

15. No.

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

16. Aviva believes the Flood Re model is the only viable solution to provide insurance for householders at high risk of flooding. This model addresses the huge challenge of affordability by setting out the premium thresholds against council tax bands whilst leaving insurers to assess the flooding risk and making the ultimate decision on flood insurance cost for individual policyholders. This will enable a competitive market place with insurers setting premiums based on their own view of flood risk and the other perils included in standard household policies. As there is no definitive view of flood risk, this is the only practical solution to make insurance available to all household properties. It is also the solution most likely to keep flood peril insurance as part of household insurance, which does not happen in other countries.
17. Aviva do not believe that the Flood Insurance Obligation is a practical model as there will be a requirement for an agreed national database of flood risk properties. This would be a very challenging objective which would take a considerable time to complete, and would leave the Government as the final arbiter of flood risk, a costly function for which it has no expertise. This option would not tackle the affordability issue as insurers would charge the full risk rate for flood on all policies and wish to avoid the cross subsidies that currently exist in the market. There is a likelihood that some insurers would create barriers to this approach and a sharing of high risk flood properties across the market could lead to insurers 'gaming' the system. Some insurers may leave the market entirely, reducing competition and choice, or offer non-flood home insurance.
18. The free market option would mean that premiums for high risk properties continue to increase to accurately reflect the flooding risk and eliminate the cross-subsidies that currently exist in the market. Homeowners at the very highest risk of flooding could find it very difficult to secure insurance at all. Government would need to provide the necessary financial support and prioritisation of flood defence investment to protect those at this highest risk of flooding.

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?

19. As explained in our answer to Q6, Aviva believes Flood Re is the only solution to address the Government Policy Objective particularly addressing affordability and accessibility for low income households.
20. We hope that all parties involved will put every effort into addressing any issues that hinders Flood Re becoming a reality as we believe it is critical as this solution is the only one that fully tackles availability and affordability for consumers.
21. The Flood Insurance Obligation (FIO) regulation option would be an unprecedented step in a market that does not require further regulation and would be complex and time consuming to set up. Insurers are unlikely to be willing to continue to honour the Statement of Principles for households in the interim as all parties have agreed that the current market is dysfunctional. The free market has flaws but may be the only other option. However Government and local government would need to provide more flood defence investment very quickly to enable high risk households to continue to obtain affordable insurance.
22. The FIO proposal may not be consistent with EU legislation, regulatory obligations and the Financial Services and Markets Act 2000 (FSMA). We believe that many insurers would challenge the legality of any government legislation and in addition there may be competition law issues caused the government's actions in terms of price and a resultant restriction or distortion of competition in the market.
23. Aviva believe that regular checks and balances to assess the number of properties ceded to Flood Re and their flood risk should take place. These regular checks should feed into a plan that is also required to reassess the risks of households so that when Flood re comes to an end the premiums charged accurately reflect the risk presented. These risks will be dependent on flood defence spend keeping pace with the increasing risk of flooding.
24. Flood Re maintains a competitive market for insurers who would continue to underwrite other perils as well as flooding. This solution still allows insurers to use their own view of flood risk putting flood mapping data and expertise to good use.

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?

25. Whilst it is not a perfect solution, using the Council Tax bands is seen as the most practical way of assessing affordability. The data can easily be made available and insurers will be able to program this into their operating systems. Consumers will be able to easily understand the Council Tax Band as a measure and an additional benefit may be that those who would not normally buy household insurance may be tempted by the subsidised rate e.g. low income households, Housing Associations tenants etc.

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?

26. Aviva supports the indicative eligibility thresholds but more detailed work will need to be completed to finalise the figures prior to full agreement with insurers.
27. The thresholds should be reviewed regularly throughout the period of the Flood Re agreement to ensure that it remains financially viable. Factors such as the performance of Flood Re, inflation impacts etc. will need to be taken into account.

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

a. Band H properties?

b. New homes built after January 2009?

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

28 a. Yes although this is a decision for Government. Band H properties represent only a very small percentage of UK housing stock.

28 b. Yes. The Statement of Principles agreement excludes homes built after January 2009 and affordable insurance should not provide an incentive to build homes in flood areas. Planning processes should be robust enough to prevent the building of new homes in flood areas.

28 c. The solution for these properties is support to enable full flood protection but this may not be practical in the short term. Ideally they would be excluded from Flood Re but it would be extremely difficult to define this category and agree a solution. The most pragmatic approach is to allow them to access Flood Re at least until an alternative solution can be found.

Q11. Should other exemptions also apply?

29.No.

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

30.Yes. It is important that consumers are able to access affordable insurance to protect both their homes and their personal contents. Flood is currently a standard component of most UK household insurance products and there is no differentiation between buildings and contents. Many policies are sold on a combined basis to cover both options. Contents cover can also be purchased in isolation.

31.Flood Re would also benefit those on lower incomes such as rented properties, housing associations tenants etc.

Q13. Do you have any comments on this proposed way of managing Flood Re’s exposure to large losses?

32. Flood Re is the industry solution for managing the liabilities created by the volatile nature of flood claims on high risk properties. However, neither Flood Re nor insurers should be responsible for liabilities when annual aggregate losses exceed a 1:200 level. We agree that Government should take ‘primary responsibility’ beyond this point.

33. It is proposed that insurers should take responsibility for any shortfall below the reinsurance level, but more work needs to be completed to ensure that this does not demand additional capital requirements from insurers. This arrangement should be at least capital neutral for the insurance industry. The arrangement should be subject to regular review.

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?

34. The cross-subsidy decision is one for Government but in the absence of other funds, this is the fairest and most viable solution to ensure the success of Flood Re. Flood Re will be formalising the cross-subsidy that already exists in the insurance market.

35. Insurers would not be able to support Flood Re without a subsidy.

36. £10.50 per insurance policy is an indicative amount and more work will be required to establish the exact proposed cost.

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

37. Yes. Flood Re is the only solution that will provide long term availability and affordability of flood insurance. The defined premium thresholds will give certainty to maximum premiums payable whilst at the same time creating a competitive market place where insurers are able to set premiums using their own data. High risk households that are currently finding it difficult or expensive in the current market will have insurance freely available at an affordable price. There will be no incentive for insurers to decline cover due to high risk of flooding.

Flood Insurance Obligation

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

38. Aviva does not agree that the Flood Insurance Obligation (FIO) would meet the policy objective.

39. Aviva does not believe that the Flood Insurance Obligation is a practical model as there will be a requirement for an agreed national database of flood risk properties. This would be a very challenging objective which would take a considerable time to complete. Additionally there would be a need for a costly arbitrator, separate from the administrator and regulator, given the Government role as holder of a national map of flood risk by property.

40. This option would not tackle the affordability issue as insurers would charge the full rate for flood on all policies and wish to avoid the cross subsidies that currently exist in the market. There is a likelihood that some insurers may create barriers to this approach and a sharing of high risk flood properties across the market could lead to insurers 'gaming' the system. Some insurers may also exit the market, reducing competition and choice.

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*?

41. No. The Statement of Principles has already distorted the household insurance market and we would not support exempting any firms if this obligation were to be introduced.

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

42. No. As we fundamentally disagree with the Flood Insurance Obligation Aviva do not feel able to provide a view on how the obligation should be applied.

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?

43. We believe that EA would be best placed to carry out this role but they would face huge challenges around compiling the register which is likely to be more time-consuming than the preferred option of Flood Re.

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

44. We believe that any regulator would need to be a different body from the administrator but with light touch regulation only. There would also need to be an arbitrator / ombudsman.

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?

45. N/A

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?

46. N/A

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?

47. We believe that any regulator would need to be a different body from the administrator but with light touch regulation only.