

Department for Environment, Food and Rural Affairs consultation: 'Securing the Future Availability and Affordability of Home Insurance in Areas of Flood Risk' - RSA Group response

RSA Group

RSA is the third largest general insurer in the UK. We provide over two million private homes with household insurance, with our direct insurance – More Than – providing household, car, pet and travel insurance to hundreds of thousands of UK customers. In addition we also cover many thousands of businesses, from small enterprises through to large multinational companies against risks, including flooding.

RSA has a strong interest in the future of flood insurance and we welcome the opportunity to feed into this consultation, both via this response and through our attendance at a recent Defra stakeholder summit. We continue to work closely with the Association of British Insurers (ABI) on the issue of flooding and insurance. The comments made by RSA are designed to compliment and add further colour and flavour to the ABI's response to this consultation.

RSA's interest in the future of flood insurance

At RSA we recognise the importance of working closely with the Government in achieving a flood risk management policy that is fit for purpose. With this in mind, we have long played a proactive role in relation to the issue of the need to secure affordable home insurance for those in high flood risk areas.

The 2007 floods proved to the nation – and to insurers – the true risk that flooding poses to our society. The estimated cost to RSA was £120m (net of reinsurance), with the cost to the whole of the UK insurance industry estimated to be around £3bn. At RSA, we worked with our personal lines and commercial customers to ensure that any claims were dealt with as quickly as possible. We used these experiences of the 2007 floods to feed into the 2007 Environment, Food and Rural Affairs Select Committee Inquiry into flooding and into the Pitt Review, and we welcomed the new Flood and Water Management Act.

Whilst flood events do fade rather quickly from the general public's interest, for those that are flooded, the experience is extremely traumatic and lives with them for many months afterwards. In the context of the increased risk of flooding that climate change brings, it is essential that we find ways to ensure flood risk is fully understood and addressed and that flood defences and availability of insurance is kept high on the political agenda, even when a major flood event may not have taken place for some time.

RSA is proud that flood cover is still provided as standard for homes in the UK, and we fully support the desire for a long-term sustainable solution that continues to offer affordable flood cover for all those living at risk of flooding. Insurers need assurances that the UK's flood risk will be adequately managed and that there is a real long-term commitment to reducing the number of homes at threat from flooding. There is a real challenge in responding to the difficulties presented by climate change and flood risk management, made more difficult by the challenging economic conditions that the country currently faces. It is essential that we get it right.

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? We do not have widespread evidence of small businesses experiencing difficulty with the availability and affordability of property insurance due to the risk of flooding.

Q2. Do you agree with the Government's policy objective for flood insurance? Yes. RSA agrees that the widest interests are served through affordable and available flood insurance cover. Flood has always been an insurable peril in the UK home insurance market. We support the principle of a transition to risk reflective pricing and to encourage incentives to manage flood risk. However, the Government must play a key role to ensure this is achievable in the longer term through a clear oversight on the building of homes on flood plains, as well as investment in flood defences maintained in real terms.

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

Q4. Do you agree with the evidence presented in the Impact Assessment? No comment

Q5. Do you have any further evidence which has not been considered in the Impact Assessment? No.

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

We fully support the adoption of the Flood Re model and as RSA was a major contributor in formulating the proposal, we welcome the announcement that the Government supports Flood Re as the preferred option. Flood Re will help promote competition for individual consumers as insurers remain free to compete for each risk and where able to offer competitive premiums below the proposed threshold, will do so. The ability to transfer the flood element of cover to Flood Re should encourage insurers to offer home insurance to high risk homes allowing increased customer choice. It is important for insurers to be able to make decisions on acceptance of customers at high risk on the understanding that the support will be available for the longer term – insurers would be reluctant to increase exposure in high risk areas without this support.

We do not believe that the obligation to insure a quota is viable and some home insurers would be forced to consider their capacity to write volume home insurance.

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 firmly believe that the Flood Insurance Obligation (FIO) would severely reduce competition in the market and we do not consider that it would effectively provide an outcome that achieves the aims of availability and affordability.

Regulation of this type in the insurance industry is unprecedented and the outcome would be very uncertain.

The need to reflect the fact that purchasing insurance is not compulsory in the overall quota, immediately allows ‘gaps’ to exist whereby some very high risk homes may struggle to get flood cover.

Consumers would find it very difficult to understand their rights under the proposed structure and some customers may struggle to find the cover they need. As insurers adjust quotas according to their requirements, consumers may find that insurers refuse to renew with others unwilling to accept the risk.

Furthermore, it may restrict the ability of smaller more localised building societies to continue with insurance schemes if their catchment area includes a higher percentage of flood risks than the average. This could cause uncertainty for the wider mortgage market and lead to unforeseen consequences, particularly as an obligation to insure has never played a part in the UK Insurance market.

A regime in which penalties are imposed for failing to meet targets would be likely to meet with resistance particularly where normal business practices may not operate to achieve and monitor arbitrary targets in a dynamic market place.

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?

RSA understands and agrees that support should be targeted towards those households who need it most. While we recognise that Council tax bands are not a complete proxy for income, we are not aware of an alternative measure or index that provides a more accurate assessment. It is however, essential that insurers have free access to a national Council tax dataset in good time, to enable this to be incorporated into systems.

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?

We agree that these appear reasonable but must of course be reviewed before Flood Re becomes a reality. It is important that the thresholds are reviewed regularly based on emerging experience of Flood Re.

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

- **Band H properties?**

RSA agrees that properties in Council Tax Band H should be excluded from the arrangement and that the public are made aware of the reasons behind this and the fact that the new arrangement is to make flood insurance available and affordable to households who may have struggled to pay the full technical price for flood cover.

- **New homes built after January 2009?**

Yes. A flood pool is being established to address an existing need for affordable cover for homes already at high risk. It is not in anyone's interest that development in high flood risk areas is allowed to continue. Although it is not the job of the insurance industry to police local planning decisions, we would not support a system that allows a 'guarantee' of flood cover where it may be seen to encourage support for development in areas at flood risk.

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

Generally, there are very few homes that are at such severe risk of flooding that they become uninsurable. However, we must recognise that there may be a small number where the ongoing costs to the pool are unsupportable without some degree of flood prevention or mitigating action. The best outcome is that an individual customer can adopt measures that would make it possible to continue cover under Flood Re while reducing the extent of losses. However, in the absence of flood prevention or other mitigating factors, there may be a small number of cases that cannot be covered. This can be expressed as a number of claims over a number of years where no mitigation is possible or being taken.

Q11. Should other exemptions also apply? No. Flood Re should be as simple to administer as possible and allow access to affordable cover for those who need it without complex hurdles to overcome.

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

Yes. Both buildings and contents can be damaged by flood and cause financial hardship therefore should both be in scope. Allowing support for contents cover helps protect those in the rental market where there may be a higher proportion of lower income households that will require support for affordable flood cover.

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

RSA agrees with the proposal to make effective use of reinsurance capacity to manage the losses in the pool in the aggregate and up to a 1 in 200 year event. In an event where flooding in the UK would be at a level unprecedented we believe that additional structure and Government support is required that does not increase the burden of capital requirements on insurers.

It is important that customers whose risk has passed to Flood Re are not disadvantaged. We foresee practical difficulties in this area. The options and outcomes must be worked through and clearly understood and agreed.

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. From the work that has been undertaken by the insurance industry and the ABI, the amount of the levy seems reasonable at this time. Further work will be needed to validate the amount prior to Flood Re going live.

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

Yes, RSA believes that Flood Re provides a solution that promotes competition, helps create a level playing field between insurers and ensures a long term sustainable model that meets the overriding objectives of affordable flood cover for homes at high risk.

Q16 to Q23. We believe that the alternative Government proposal, the FIO, will not achieve the overall objective of availability or affordability and presents a number of difficulties. Please see our response to Q7.

We believe a purely geographical allocation of risk means that some homes in areas of high risk will be able to access cover without difficulty, whereas others will remain unable to secure cover.