

**RICS**

the mark of
property
professionalism
worldwide

Submission

Defra Consultation on 'Securing the future availability and affordability of home insurance in areas of flood risk'

Via E-mail: floodinsurance@defra.gsi.gov.uk

2nd August 2013

Dear Sirs,

RICS Response:

RICS – Royal Institution of Chartered Surveyors - is pleased to respond to the above consultation.

RICS is the leading organisation of its kind in the world for professionals in property, construction, land and related environmental issues. As an independent and chartered organisation, RICS regulates and maintains the professional standards of over 100,000 qualified members (FRICS, MRICS and AssocRICS) and over 50,000 trainee and student members.

It regulates and promotes the work of these property professionals throughout 146 countries and is governed by a Royal Charter approved by Parliament, monitored by the Privy Council, which requires it to act in the wider public interest.

Since 1868, RICS has been committed to setting and upholding the highest standards of excellence and integrity – providing impartial, authoritative advice on key issues affecting businesses and society. RICS is a regulator of both its individual members and firms enabling it to maintain the highest standards and providing the basis for unparalleled client confidence in the sector.

In the context of this consultation, Chartered Surveyors can help in managing all aspects of flood risk assessments for domestic and non-domestic properties, valuation and negotiation with insurers about insurability, premiums and claims management, and specifying and commissioning appropriate Flood Resistance and Flood Resilience works.

We publish a consumer guide for all property owners and occupiers, which is also made available through our members and their companies:
http://www.rics.org/Global/Downloads/A_clear_guide_to_Flooding_for_property_owners.pdf

**Royal Institution of
Chartered Surveyors**

Parliament Square
London
SW1P 3AD
United Kingdom

t +44 (0)870 333 1600
f +44 (0)20 7334 3811
e externalaffairs@rics.org
rics.org/externalaffairs

NEW YORK • LONDON • BRUSSELS • DUBAI • NEW DELHI • HONG KONG • BEIJING • SYDNEY



INVESTOR IN PEOPLE

RICS Overall Comment

The insurance of property for flood risk is based on the work of surveyors carrying out valuations and flood risk assessments for insurance companies.

Whilst undoubtedly the replacement of the Statement of Principles is an agreement between the ABI and the government, DEFRA needs to take note of those bodies such as RICS who are central to the process of insuring property, lowering flood risk and increasing flood resilience.

Surveyors are responsible for the valuations that underpin insurance agreements. Without that insurance it will be nigh on impossible to get a mortgage. Without a mortgage many people will be unable to purchase property. And if properties are not insurable or mortgageable, there will be a dramatic impact on their value.

This has the potential to rule out existing residential stock at a time when the government is trying to close a housing deficit; and moreover, many of the communities most affected are in rural areas that face significant problems of affordability and lower incomes.

Specific answers to 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?

Yes, many of our members have fed back this information colloquially to RICS. We would be happy to collate this if asked to do so by officials.

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

The government's policy objective is in actuality solely for residential property, and misses both home based micro-enterprises, and smaller commercial property. If commercial property cannot be brought within the scope of the policy objective, then thought needs to be given to how that sector can be provided with adequate and affordable flood insurance through a separate mechanism.

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

We agree with the approach in so far as it demonstrates that the approach works for residential property.

We believe the impact assessment should have included the impact of no flood insurance for smaller commercial properties, and alternatives to cover this off. It is critical that cover should be available via a separate process, possibly based upon Business Rates.

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

The Impact Assessment is complex and contains numerous pieces of data, which at first glance are difficult to comprehend and will require a detailed review. It is simply un-understandable for many of the non-technical or specialist affected parties involved in this issue.



RICS

the mark of
property
professionalism
worldwide

rics.org/externalaffairs

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

No comment.

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

We support the FloodRE proposal as the only available mechanism that can be brought in to replace the Statement of Principles and carry both insurance industry and government with it. Therefore both property professionals and property owners have a strong desire to see it work, as the alternatives without the support of both main parties, are simply untenable.

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?

RICS initial view is that FloodRe is the best way forward, as the Flood Obligation proposal is too prescriptive and basically unworkable. It is likely that it will generate litigation from the insurers which will add years to the time it takes to reach a sustainable solution.

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?

No comment.

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 would welcome the capping of the risk as 0% premium for Council Tax band A, which if the FloodRE scheme follows social fairness through to its logical conclusion would benefit those on lower incomes and living in lower value properties.

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?

To address these three points in summary. We do not agree.

Excluding larger and more expensive properties – specifically those in council tax band H – creates a huge problem. This exclusion could seriously affect a property's value, making maintaining it completely unaffordable and potentially distort the property market. While the aim of this policy is perceived social fairness, just because somebody inhabits a larger or more expensive home on a river bank or coastline, or a property built after 2009, doesn't necessarily mean they have the means to afford its upkeep at these levels.

Furthermore, and potentially more concerning, is the exclusion of small businesses from the fund. Many micro-businesses and cottage industries are home-based or in mixed-use developments and these may not be covered by the proposals. The country relies heavily on



RICS

the mark of
property
professionalism
worldwide

rics.org/externalaffairs

SMEs and entrepreneurs to underpin local economies such as those in Cockermouth.
Unaffordable or inaccessible insurance for those at potential flood risk could prove crippling.

Q11. Should other exemptions also apply?

No other exemptions should apply.

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

We agree with this.

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

It is important for the government and bodies from Industry to guarantee that the FloodRe pool will not run out of funds – even if the currently excluded once in 200 year event does happen. To have any uncertainty over the final outcome of a valid claim will certainly undermine the confidence that the policyholder and funder should have in the insurance upon which they rely.

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?

The difficulty with cross subsidy is that in effect those households in the smaller nations of the United Kingdom will subsidizing insurance claims for flood events in the more populous sections of the UK; this is at its most extreme if you look at the overall number of properties at risk in Northern Ireland compared to the rest of the UK.

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

We could only agree that Flood RE will secure such an outcome if it was indeed to cover all residential properties affected by flood risk in the UK.

Flood Insurance Obligation

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

No we don't agree that the Flood Insurance Obligation can meet the policy objective.

Concluding comments

The central FloodRE fund is great news for the majority of those deemed to be at serious risk. We also welcomed the announcement of more spending on flood defences in the Comprehensive Spending Review, along with other forms of infrastructure.

However, the government needs to think again and ensure that the basic principle of insurance – the risk of the few is spread amongst the many – is embodied in FloodRE. Flooding, as we have seen time and time again, can occur practically anywhere not just in 'high risk' areas and the

RICS would be pleased to provide further advice and comment to officials and the Minister. Please do not hesitate to contact me if you require further detail or briefing.

Yours faithfully,

JEREMY BLACKBURN

Jeremy Blackburn
RICS UK Director of External Affairs
T +44 (0) 20 7334 3791
E: jblackburn@rics.org



RICS

the mark of
property
professionalism
worldwide

rics.org/externalaffairs