



The Consumer Council

Elizabeth House
116 Hollywood Road
Belfast
BT4 1NY

Our ref: 3/15/11.06

**Flood Insurance Consultation
Area 3C
Nobel House
17 Smith Square
London
SW1P 3JR**

8 August 2013

Dear Sir

**Re: DEFRA consultation on the future availability and affordability
of home insurance in areas of flood risk.**

Our reference: PD20010/1599

The Consumer Council welcomes the opportunity to respond to this consultation. The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests* of consumers in NI and we have specific functions in relation to energy, water, transport and food. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

The Consumer Council is also a designated supercomplaint body meaning we can refer consumer issues to the Office of Fair Trading where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. To represent consumers in the best way we can, we listen to them and put their priorities at the heart of all we do.

Events over recent years have increased our focus on flooding, flood response and how flood risk is managed. Since commencement of the Consumer Council's statutory water role in April 2007 we have become increasingly involved in the many aspects of flood risk management.

From our work with consumers we developed a set of high level guiding principles on what NI consumers expect from their domestic insurance:

- Domestic flood insurance should be generally and readily available as part of standard home insurance cover and available at a reasonable cost.
- There should be price stability.
- A single flood incident should not result in exclusion from future insurance cover. Nor should it have a disproportionate or excessive effect on terms of cover, premiums or policy excess.
- Measures taken to reduce flood risk, both public schemes and individual (private) property measures must be recognised in cover, premiums and excesses.
- Clear and accessible information and advice must be provided by the insurance company when providing a quote and when a customer enters into a new policy. This information must be consistent and accessible across all channels i.e. verbally, in writing and on the website. It should not be hidden in small print or jargon.
- The level of cover provided, the constituent parts of the premium, the calculation, and level of flood risk and all exclusions should be clearly explained.
- Guarantees on all work and restorations provided by insurers.
- Confidence that all of the costs impacting on home insurance premiums are necessary, appropriate and relevant.
- Insurers continue to work with households to explore insurance options where flood risk is significant and no public plans are in place or proposed.

Our positions on the proposals outlined in the DEFRA consultation build on these principles and research we conducted during the winter of 2012/13 looking at NI consumers' views on flooding and domestic flood insurance¹.

¹ A summary report of the research can be found at <http://www.consumerCouncil.org.uk/publications/?id=1010>

Structure and eligibility

The high level proposals laid out in the consultation are to be welcomed. We support both the overall policy objective for flood insurance and the establishment of Flood Re as the best option proposed and the preferred approach to delivering the objective.

We agree that Flood Re be established as a not-for-profit body to cover domestic buildings and contents insurance, with the Water Bill compelling all insurers offering household insurance to participate. We are also mindful that Flood Re has the support of the insurance industry and that this will be of significant benefit when progressing implementation of the new scheme.

While still to be determined the final structure, classification and governance of Flood Re should offer levels of transparency and accountability that provide consumers with confidence in its role, management, finances and effectiveness. Consumers would have to be assured that placing accountability for income, expenditure and value for money within Flood Re would allow Parliament a sufficient level of scrutiny and oversight. It would be beneficial to have additional clarity of the proposed governance structures to be presented to Parliament when developed including the roles of the National Audit Office and Public Accounts Committee in providing oversight and reporting on Flood Re cost and performance.

The price stability offered to consumers through linking the eligibility thresholds to CPI is appealing. Any decoupling from CPI after the initial period should be checked for the impact this will have on the scope of the scheme's coverage and affordability. As noted below, the expected uplift in eligible thresholds premiums should be managed to control the level of support to lower income households.

In NI 72 per cent of households have contents insurance. The uptake of contents insurance varies by socio-economic group - groups ABC1 are more likely to be covered by home contents insurance (84 per cent) compared to C2DE households (60 per cent). As consumers with higher incomes are more likely to be insured and tend to have more expensive insurance there is increased likelihood that higher value houses will be eligible to benefit from Flood Re. Using house value as a proxy for ability to pay provides the simplest and cheapest way of targeting benefits towards those on lower incomes. We therefore support the tailoring of eligible premium thresholds to provide support to low value households and the exclusion of Band H equivalent households.

The predicted increase in premiums over the course of Flood Re can be expected to further exacerbate insurance affordability issues in low income households. We recognise that benefits will tend towards more affluent households even when support is targeted towards those on lower incomes. Accordingly, as the transition to more risk-reflective insurance is managed over the period of Flood Re, and especially if the link to CPI is removed after the first five years, to counter this natural tendency and to increase insurance take up in low income households consideration should be given to increasing the degree of support to lower income households as all eligible threshold premiums increase.

We support the application and reinforcement of planning policy to avoid building in flood risk areas. We would have some reservations about the levels of information provided to property developers on all sources of flooding from January 2009 to the present. Improvements in flood mapping and modelling since January 2009 may make a review of this starting date for exclusion appropriate.

We agree in principle with the exclusion of properties at extremely high risk of flooding on the basis of the additional cost of claims that would be placed on the wider policy holder base. We would require further detail on the definition of extremely high risk properties.

Information on alternative or specialised insurance cover should be provided to properties excluded from Flood Re. As should the details on the mechanism for linking NI domestic property rating valuations to Council Tax Bands.

The application of Flood Re in private and public rental markets needs further explanation. Our research found significant variation in the uptake of contents insurance between home owners (92 per cent), private rented (34 per cent) and public rented (29 per cent) so measures to increase affordability and the uptake of insurance in the rental sector are to be welcomed. How property value is used in the calculation of buildings insurance for private and public landlords needs to be explained as the detail of Flood Re is developed.

The provisions of a 'sunset clause' should set the correct pace with a gradual glide path to ensure that measures have been taken to reduce flood risk (both public and private) and allow consumers to make choices and adjustments that need to be made as with the move from Flood Re to more risk-reflective pricing.

The majority of NI consumers are aware of the shared responsibility for flood preparation and protection - 64 per cent agreed that the owner/occupier has some responsibility for protecting their home from flooding. This shared responsibility and duration of Flood Re provide the opportunity to improve flood risk management and lessen flooding impacts at all levels. The 20-25 year transition period of Flood Re must not be punctuated into five year blocks of flood measures and insurance agreements.

With the growing recognition that property level protection measures offer cost effective flood management options in many locations consumers will expect such individual measures, whether publicly or privately funded, to be recognised by the insurance industry when calculating flood risk. We recognise the difficulties in attaching an actuarial benefit to individual protection measures but recognition and a financial benefit to supplement the flood risk benefits would act as an additional incentive to uptake.

Flood Re will not make flood insurance affordable for all. Consumers will expect national and local government to continue investing and working with communities to manage and reduce flood risk, and the insurance industry to work to provide available and affordable flood insurance.

Levy

The consultation sets out how powers Flood Re will be funded through an industry levy and ad hoc contributions.

We agree that the levy be set at a level commensurate with the current level of cross-subsidisation and be fixed for five years. We welcome the assurances by the Association of British Insurers (ABI) that through the formalisation of the existing level of cross-subsidy (c£10.50 per UK household) it does not expect to see bills rising for ordinary households under Flood Re. An increase in cross-subsidisation does not carry support with NI consumers with only one third being willing to pay an additional £10 per year on their own combined home insurance premium to reduce premiums for those living in flood risk areas. With household budgets increasingly strained and more households struggling to make ends meet this is not surprising.

The nature and extent of 'ad hoc' contributions must be made clear and cannot be left as a 'catch all' under which additional sums can be added to the existing household costs of insurance.

While understanding that many of the determinant factors contributing to the necessary level of the levy are difficult to control, the unpopularity of an increased cross-subsidy must act as an incentive to both government and the ABI to manage and administer Flood Re to optimise the levels of cover offered to households while striving to control the required level of levy.

The acceptability of any increase in the level of formalised cross-subsidy would need to be tested at that time with consumers.

While requiring more information on how taxpayers will be protected in the event of extreme flooding we support the limitation of cover offered by Flood Re to c£2.5 billion so as to prevent the imposition of a higher levy.

The formalised Flood Re payment and its purpose must be clearly explained to consumers. Our research found a level of suspicion behind the motives for Flood Re and the novelty of this component of the insurance premium will draw attention. The amount of formalised cross-subsidy should be clearly itemised as a constituent part of the total insurance premium on all domestic home insurance premium quotations and policy documentation.

The control of excess is an important element to underpin the availability and affordability of flood insurance and we support the fixing of a standard flood excess of between £250 to £500 for policies ceded to Flood Re. The level of excess and any exclusions need to be made clear to the policyholder.

Flood Insurance Obligation

We agree that if Flood Re cannot be made to work the Government should develop plans to regulate and intervene to protect households. The thresholds for such intervention need to be clearly established.

We would support the proposal for the Financial Conduct Authority (FCA) to be established as the regulatory body to supervise compliance and make any regulatory interventions necessary. The powers provided to the FCA under any Flood Insurance Obligation should be sufficient to scrutinise all aspects of its operation and performance. These functions can best be performed by an independent auditing regime supported by FCA powers to conduct in-depth investigations and take enforcement action under a fully discretionary regime.

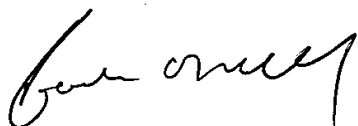
The FCA should be obliged to produce a public annual report on the costs and performance of any Flood Insurance Obligation.

Detailed development

The consultation makes it clear that much of the detail of the Flood Re proposal needs to be developed. The Consumer Council's response and position is based on the information currently available. We would request that DEFRA regularly publishes information on the work in developing Flood Re and allows for further comment before implementation in 2015.

If you wish to discuss in more detail, please contact Kathy Graham, Head of Water on 028 9067 2488 or kgraham@consumercouncil.org.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Aodhan O'Donnell', written in a cursive style.

Aodhan O'Donnell
Interim Chief Executive

Annex – Consumer Council responses to specific DEFRA consultation questions

All of the below answers should be read in conjunction with our main letter of response.

Q1.	<p>We have no evidence of small businesses experiencing difficulties obtaining property insurance due to flood risk. Our work has concentrated on domestic insurance issues.</p> <p>88 per cent of businesses in NI have fewer than 10 employees. A direct approach to trade organisations in NI would help to inform DEFRA decision over intervention in the insurance market's provision of flood insurance to small businesses.</p>
Q2.	<p>We support the policy objective and that the envisaged duration of Flood Re (20-25 years) be used to lower the risk of flooding and enable a gradual transition to more risk-reflective pricing.</p> <p>All efforts should be made to prevent the duration of Flood Re being broken down into five year agreements on the transition towards the overall policy objective.</p>
Q3.	<p>We agree with the approach taken to analyse the different potential solutions.</p>
Q4.	<p>We have no grounds to disagree with the evidence presented in the Impact Assessment</p>
Q5.	<p>We have high level figures for home insurance uptake in NI and consumers views on flood risk management and flood insurance. A summary report can be found at http://www.consumerCouncil.org.uk/publications/?id=1010</p>
Q6.	<p>While requiring more information on the detailed workings of Flood Re we support the Government's proposed approach of working with the insurance industry to secure affordable and available flood insurance.</p>
Q7.	<p>If Flood Re cannot be made to work the factors to be taken into account before taking a decision on</p>

	<p>Government intervention through the Flood Insurance Obligation –</p> <ul style="list-style-type: none"> • Timescale to implement – 2015 has been set as a target date. Too much drift past this target should be avoided • Level of the levy – commensurate amounts currently supported. Should the level of levy increase acceptance of this would need to be tested at that time with consumers • Eligibility threshold – if a steepening of the rate of increase after splitting with CPI or erratic price swings • Group pricing at the eligible threshold effectively altering a competitive market
Q8.	<p>We agree that the eligibility threshold be tailored to provide support to low value households.</p> <p>The applicability of Flood Re in both the public and private rental sectors needs to be more clearly explained.</p>
Q9.	<p>We support a level of eligibility threshold that maintains a levy commensurate with the current level of cross-subsidisation.</p>
Q10.	<p>Agree with the exclusion of Band H (NI equivalent) households.</p> <p>We agree with the application and reinforcement of planning policy but have some reservations about the start date for exclusion being set at January 2009.</p> <p>We agree with the principle of excluding properties at extremely high risk of flooding. We would like more information on the considerations for the definition of extremely high risk.</p>
Q11.	<p>An extensive list of exclusion type properties without solid evidence risks damaging the reputation of Flood Re before its establishment.</p>
Q12.	<p>We agree that Flood Re should cover both contents and buildings insurance</p>

Q13.	We agree with the setting of exposure to large losses being set at £2.5 billion. We would like more detail on the protection of taxpayers to losses above this threshold.
Q14.	As covered in the main body of our response, we feel that a levy equating to the current level of cross-subsidy would be supported by consumers. Two thirds of NI consumers were against paying an additional £10 per year on their own home insurance premiums to reduce insurance premiums of those living in flood risk areas.
Q15.	Despite the best intentions of Flood Re we expect home flood insurance will continue to be unaffordable for some low income households.
Q16.	Should Flood Re be unworkable the Flood Insurance Obligation has the potential to meet the policy objective.
Q17.	We agree that the SoS should have the power to exempt some firms from the Obligation. The conditions for exemption should be clearly set out in the legislation.
Q18.	The Flood Insurance Obligation should apply to both buildings and contents insurance.
Q19.	Should regulation be necessary we would support the appointment of EA as lead administrator. The compilation of a UK wide register listing by address all properties at high risk of flooding would need to be progressed with caution. We would have concerns that such a list could create a black list of flood risk properties.
Q20.	We agree with the broad range of regulatory duties outlined.
Q21.	We support the independent audited regime with additional powers of investigation by the FCA.
Q22.	We support a fully discretionary enforcement regime.
Q23.	We support the proposal for the FCA to supervise compliance and to take any required regulatory action.