

8 August 2013

Flood Insurance Consultation  
Department for Environment, Food and Rural Affairs  
3<sup>rd</sup> Floor, Zone C, Nobel House  
17 Smith Square  
London  
SW1P 3JR

Dear Sirs

**BIBA response to DEFRA consultation on Securing the future availability and affordability of home insurance in areas of flood risk.**

The British Insurance Brokers Association (BIBA) is the UK's leading general insurance organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes just under 2,000 regulated firms having merged with the Institute of Insurance Brokers (IIB) in November 2011.

General insurance brokers contribute 1% of GDP to the UK economy and BIBA brokers employ more than 100,000 staff.

BIBA helps more than 400,000 people a year to access insurance protection through its *Find a Broker* service, both online and via the telephone, including specialist flood brokers who can insure the vast majority of flood impaired properties.

Brokers provide professional advice to businesses and individuals, playing a key role in the identification, measurement, management, control and transfer of risk. They negotiate appropriate insurance protection tailored to individual needs.

BIBA have committed to work closely with Government on solutions for flood insurance which remains a key priority in our manifesto.

Thank you for inviting BIBA to respond to this consultation, our responses are listed after each question.

### Question 1

#### **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 have evidence from a BIBA member, of small businesses experiencing difficulty obtaining affordable property insurance due to the risk of flooding. Examples of this are as follows:

Policy type	2012	2013	Comments
Package	£1,700 premium £5,000 or 10% flood excess	£1,900 premium ex flood or £7,500 inc flood with expiring excess	Only holding company would offer terms under SOP
Package	£1,120 premium £5,000 or 10% flood excess	£3,500 premium ex flood or £7,000 inc flood with expiring excess	Only holding company would offer terms under SOP
Package	£5,000 premium £5,000 or 10% flood excess	£10,000 premium ex flood	Only 1 market
Package	£2,900 premium £5,000 or 10% flood excess	Same	Only 1 market
Package	£770 premium £5,000 flood excess	£1,300 premium ex flood £1,500 £20,000 flood excess	Only 1 market
Property owner	£2,099 premium £5,000 or 10% flood excess	Terms o/s	Marketing ongoing

A BIBA broker in Cumbria has highlighted that there are still empty shops in Cockermouth which demonstrates the hesitancy of businesses given the insurance costs and insurers lack of appetite to write flood cover.

The Statement of Principles (SOP) has generally enabled brokers to obtain terms from the holding market to date.

We are concerned that where small businesses (with up to 49 staff) are currently covered in the existing SOP, they will no longer be covered by any of the four options proposed in this consultation. This is a retrograde step.

We believe there needs to be a greater definition of what is IN and what is OUT. There should be a clear qualification of the residential situation. For example:

Landlords with tenants – This is a mixed situation as the Landlord is “Commercial” but the tenants contents are private and fall within a household risk.

The Bed and Breakfast and the Public House scenarios, where the owner may live on the premises, which again creates a mixed use situation. BIBA believe that when someone lives at that property as their normal place of residence that irrespective of any business use it should be considered IN.

**Question 2.**

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

Yes, we agree with the objectives to ensure that flood cover for domestic property continues to be widely available and affordable in areas of flood risk without placing unsustainable costs on wider policyholders or the taxpayer.

However, we remain concerned about small businesses specifically and definitions in general as per question 1.

**Question 3.**

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

The Net Present Value (NPV) ranges seem very diverse and we question if they could be tightened up, but ultimately we appreciate this is at best a subjective exercise.

**Question 4.**

**Do you agree with the evidence presented in the Impact Assessment?**

We do not disagree with the impact assessment.

**Question 5.**

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

Not for domestic, but we do for small businesses (as per question 1)

**Question 6.**

**Do you support the Government's proposed approach?**

We think it is sensible to look at all of the four options that you have outlined. Flood Re would secure the aims if it can be successfully established and receives support from Government, the EC and insurers (including agreement about any shortfall in funds either at the bottom or the top end of the reinsurance).

We go into further detail throughout this document.

**Question 7.**

**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?**

If Flood Re does not gain agreement we would suggest that Government should discuss hybrid models of options 2 and 3 or options 2 and 4. The benefit of combining options 2 (the most expensive) and 3 (the best value) could be that the Flood Re infrastructure could be used too help option 3 re-distribute the money to insurers but not remove the insurers liability.

Concerns regarding the Obligation are:

- BIBA would be concerned that if Insurers had no choice under the obligation other than to insure a given quota of flood risk properties then Government could seek to reduce their levels of flood defence spending.

- It is questionable whether the obligation can achieve affordability.
- The obligation would be the first time that Insurers are forced to provide a type of cover for a high risk that they otherwise may have chosen not to insure. This could result in some Insurers withdrawing from the market, reducing capacity, competition and choice and introducing cumbersome regulation.

## **Flood Re**

### **Question 8**

**Do you agree that setting 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?**

The insurance industry already has a system so that those living in cheaper properties pay less. The use of the number of bedrooms for rating along with a rate per cent on the sum insured already achieves risk based pricing.

We disagree with the assumption that the council tax system does not require significant administration. In fact we believe that there will be a significant burden with the changes required to software programmes used by brokers and insurers to elicit this information. There is also the issue that not all properties have a council tax rating e.g. unoccupied uninhabitable property and Northern Ireland properties.

We also disagree with the exclusion of Band H property. Just because it is band H does not necessarily relate to the affordability and ability to pay. And it could still be very difficult for a band H property to seek flood insurance.

We also do not believe there are that many band H properties in comparison to the other bands and therefore do not believe their inclusion should have any major overall impact.

Therefore we believe that band H must be included.

The BIBA Property committee are also of the view that if this is designed to help those on lower incomes there should be a greater differential in the lower bands, (particularly between bands A and B) as the range of prices across the bands A to G is not skewed enough.

So in summary we suggest looking at other methods of helping lower income households and suggest consideration of a simple system of utilising existing rating factors and having a simple cap on the sum insured. This would mean that lower value houses would be eligible for great support from Flood Re more easily than those with a higher sum insured, this should address the aspect of those in lower income percentiles.

### **Question 9.**

**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 thresholds.**

Please see our answer to question 8.

**Question 10**

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

**(a) Band H properties?**

We disagree, Band H should be included as per our previous explanation.

**(b) New homes built after January 2009?**

We disagree with 2009 as the cut off point, instead we believe that the cut off should be 2013 as per the last 4 years those properties have been required to be built in accordance with Policy planning statement 25. (PPS25) We believe there does have to be a cut off to ensure that between now and the introduction of the new flood agreement, future new building projects are arranged in a resilient manner.

There must be a more resilient and robust planning process and the problems that currently exist with PPS25 must be eradicated.

**(c) Genuine uninsurable properties? If so, how would you define these in a consistent way that insurance companies can apply?**

We strongly disagree with the genuinely uninsurable property proposal.

If a property has a council tax band and is capable of habitation then it should be insurable. The vast majority – 99% of UK domestic homes are insurable for flood already and the whole point of having an agreement is to cover those in high risk areas, therefore suggesting they are excluded is counter productive to any new agreement .

We are also concerned at who would have the right and ability to decide what is genuinely uninsurable, how would they decide and how often would this be reviewed? Situations constantly change with new defence schemes and individual property level protections being added. Therefore in summary we think this agreement must pick up all postcode rated domestic properties in the UK. We do not believe there are that many properties in this category.

**Question 11.**

**Should other exemptions also apply?**

No.

**Question 12.**

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

Yes, Flood Re should apply to both buildings and contents and all perils should be included as per a standard household policy.

**Question 13.**

**Do you have any comments on this proposed way of managing Flood Re's exposure to larger losses?**

If we have understood the proposal correctly, there seems to be a gap of approximately £100M between the income collected from Flood Re and the reinsurance starting level ( the gap is roughly between £150M and £250M) we think there needs to be greater clarity on how this might be funded.

Also, if there is a very large loss, e.g. an East Coast flood, then the £2.5 Billion proposed reinsurance limit could be breached. We need clarity over what would happen in this situation.

**Question 14.**

**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?**

To be correct we think the levy is per household policy, not per household as clearly those households without insurance will not be paying the levy.

As it is proposed for band H properties not to be included in Flood Re, would they be expected to pay the levy?

Some Insurers have very little exposure to flood risk in their portfolio at the moment, but a subsidy across the market, rather than across a portfolio could see those more cautious insurers being subject to a significant additional new cost. However we agree with the principal that you have to have a levy in order to deal with the affordability issue.

We remain cautious that the levy could increase significantly in the future due to external pressures such as climate change in years to come.

**Question 15.**

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

We agree it could, but we do want to raise some issues

- It requires approval from the European Commission,
- It should also cover small business like its predecessor the SOP
- Has a £100M gap and a limit that could be breached by a super flood
- Doesn't cover new homes built after 2009
- Doesn't cover "genuinely uninsurable properties"
- Doesn't cover council tax band H properties
- The -£196M cost for Flood Re outlined in the impact assessment is the most expensive in comparison to option 3 (+£191M) and option 4 (+£43M)

If these issues can be resolved then we are confident that Flood Re should achieve the Government policy objective for flood insurance.

We also believe that if Flood Re is designed to end in 20-25 years time (when its expiry leads into a free market) that the subsidy and the impact on premium affordability help should reduce gradually over this period, perhaps every 5 years. This should ensure that the impact of an eventual free market does not lead to unacceptable increases in premiums

**Flood Insurance Obligation.**

**Question 16.**

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

The Obligation has the potential to accommodate availability, affordability and no undue burden on the taxpayer and the impact assessment results are more favourable than those of Flood RE.

However, BIBA would be concerned that if Insurer had no choice under the obligation other than to insure a given quota of flood risk properties then Government could seek to reduce their levels of flood defence spending.

The obligation would be the first time that Insurers are forced to provide a type of cover to a high risk home owner or occupier that they otherwise may have chosen not to insure. This would create a situation that some Insurers could withdraw from the market, reducing capacity, competition and choice and introduce cumbersome regulation.

**Question 17.**

**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 a *de minimis*?**

In the interests of a level playing field BIBA believe that it is right all insurers have the same obligation, however the regulator could obviously tailor their supervision in a proportionate manner according to the risks posed by individual insurers.

**Question 18.**

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

Yes. It would further complicate matters if you try to strip out one from the other. One large broker tells us that 71% of their household book is combined buildings and contents.

**Question 19.**

**Do you agree that the Environmental 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?**

Yes, this should be freely available to the industry and their customers.  
We would disagree with the term 'register' and instead suggest it be called a flood insurance qualification so it is a positive rather than a negative.

**Question 20.**

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

Yes, we agree.

**Question 21.**

**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 business and consumers? Is there another approach not considered here?**

We believe the discretionary regime to be the most workable.

**Question 22.**

**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?**

We believe a hybrid style, flexible approach to be the most workable.

## Question 23

The FCA should be the regulator as they are already the lead regulator in this sector.

### Summary

A summary of our key issues are:-

- BIBA agree with the Government's objectives for domestic properties.
- During the interim period we recommend a system of **signposting** be formally created in order to help people more easily access insurance for their flood risk property. BIBA would be happy to assist in the way that we have done with the "age" agreement.

**Small businesses** in flood risk areas do sometimes have difficulty in accessing flood cover. They have always been protected in the previous SOP and we believe they need to be included a solution going forward.

- BIBA suggest consideration of a simple system of utilising existing rating factors and having a simple cap on the sum insured. This should address the aspect of supporting those in **lower income percentiles**. We also disagree with the exclusion of Band H property.
  - We disagree with 2009 as the **cut-off point**, instead we believe that the cut-off should be in 2013.
  - We strongly disagree with the **genuinely uninsurable property** exclusion.
  - The -£196M cost for Flood Re outlined in the **impact assessment** is the most expensive in comparison to option 3 (+£191M) and option 4 (+£43M).
  - The level of subsidy and the impact on premium affordability support should **reduce gradually** over the 20 year period, perhaps every 5 years. To ensure that the impact of a free market does not lead to massive increase in someone's premium.
  - Under the obligation, BIBA would be concerned that if Insurer had no choice other than to insure a given quota of flood risk properties then Government could seek to **reduce their levels of flood defence spending**. This would only give insurers a reason to withdraw from the market.
  - The **obligation** could lead to a reduction of capacity, competition and choice.
  - The FCA should be the regulator if there were to be an obligation.
  - Flood Re requires primary legislation.
  - Flood Re requires approval from the **European Commission**, a significant hurdle.
  - Flood Re should apply to both **buildings and contents**.
  - Flood Re has a £100M gap before the reinsurance starts and a £2.5B limit that could be breached by a super flood.
- If Flood Re does not gain agreement we would suggest that the Government should consider a hybrid options combining 2 and 3 or 2 and 4 before resorting to option 4.
- PPS25 must be more robust.



In consequence, BIBA would welcome further discussions on the detail on the preferred options which emerged from this consultation exercise.

Yours faithfully,

**Graeme Trudgill**  
**Executive Director**

**Tel: 020 7397 0218**

**Fax: 020 7626 9676**

**Email: [trudgillg@biba.org.uk](mailto:trudgillg@biba.org.uk)**