

**Open Report on behalf of Richard Wills,  
Executive Director for Environment and Economy**

Report to:	<b>Flood and Drainage Management Scrutiny Committee</b>
Date:	<b>13 May 2016</b>
Subject:	<b>Flood Reinsurance (Flood Re) scheme launch</b>

**Summary:**

This report provides the Committee with an update on the Government's Flood Re scheme, launched on 4th April 2016, which offers capped insurance costs and limits policy excess payments for domestic properties at risk of flooding from external sources.

**Actions Required:**

Members of the Flood and Drainage Management Scrutiny Committee are invited to consider and comment on the Floods Re scheme now in operation.

## **1. Background**

Following on from the 5<sup>th</sup> September 2014 report to the Floods and Drainage Management Scrutiny Committee; The Flood Reinsurance (Flood Re) Scheme – Regulations, this report updates Committee Members on the introduction of the scheme. It also precedes a presentation of the scheme to Committee later this year (scheduled for December) by Flood Re.

### **The Association of British Insurers Statement of Principles:**

The Association of British Insurers (ABI) first published a Statement of Principles (SoP) on the provision of flood insurance in early 2004. This was updated in 2006, 2007 and 2008. The SoP was a joint agreement between the ABI and the Government – principally DEFRA and the Treasury. It set out how ABI members (insurance companies) considered flood risk when managing requests for insurance from customers.

The SOP expired in June 2013 but Insurers voluntarily agreed to continue to work to its principles until Flood Re was established.

## What is Flood Re?

Flood Re is an industry owned and managed not-for-profit re-insurer. Flood Re has now been 'designated' as the Scheme Administrator by Ministers and is now a publicly accountable body with statutory objectives and powers including levy-raising powers.

- Flood Re pools the risk of flood claims and uses a levy to subsidise flood insurance for the (approximately) 2% of households at highest risk of flooding. This is classed as a tax so the scheme has to meet specific objectives and the use of the funds is strictly controlled;
- To fund this a new industry backed levy will enable insurance companies to cover those most at risk from flooding;
- All household insurers will have pay this levy proportionately according to their market share, creating a fund that can be used to pay claims for floods related insurance claims. To date approximately 60% of the UK's insurers have joined the scheme but this level of participation is expected to rise quickly now that the scheme is in operation.
- It covers domestic properties and policies but not all properties are eligible;
- The Flood Re Scheme caps flood insurance premiums, linking them to council tax bands so that people will know the maximum they will have to pay for the part of their insurance policy relating to flooding from external sources;
- The Flood Re scheme limits the excess payable by policy holders for claims against the floods element of their insurance policy to £250 per claim.
- It is a transitional measure, designed to smooth the path to risk-reflective prices over 25 years (ie, avoid sudden price/availability shocks) and has a duty to provide information to insurers (that cede policies to the scheme), on the nature of Flood Re, where to find out more information on a property's flood risk and how to mitigate the impacts of flooding;
- The project to deliver Flood Re has been complex, novel and mostly for the industry to deliver.

The Flood Re website has now been set up ([www.floodre.co.uk](http://www.floodre.co.uk)) and includes a useful description of how the scheme works and responses to a number of FAQ'S.

### **Flood Re eligibility:**

The aim of Flood Re is to provide support to those who need it most. As a result there is a number of criteria that need to be met for a property to be eligible for entry into the Flood Re scheme and which set the caps on the cost of flood cover as follows:

- Criteria for ceding to Flood Re (and thus the capped cost of insurance against external flooding) are based on domestic property Council Tax bands (A to H) as shown below;
- Properties will transition out over the 25 year lifespan of the scheme;
- It applies to domestic properties built before 2009;

- The 2009 cut-off date recognises that new housing developments should be located to avoid flood risk, or where development in a flood risk area is necessary it should take account of that in its design. Less than 2% of current housing stock was built after 2009;
- The measure excludes most small businesses (most businesses are excluded although there are some exceptions such as B&B's under certain conditions);
- Some leasehold properties will be included (eg, in the case of a small block where the freeholder lives at least some of the time) but those with commercial policies are likely to be excluded;
- Contents insurance for leasehold and rented properties will also be eligible;
- Landlords' insurance will not be covered.

Ultimately it is up to the insurers themselves to decide which eligible policies to cede to Flood Re, see [www.floodre.co.uk](http://www.floodre.co.uk) for more details.

**Table showing the cost levels at which the floods elements of insurance cover is capped within the Flood Re scheme.**

Council Tax Band; England and Scotland	A&B	C	D	E	F	G	H
Buildings only (£'s)	132	148	168	199	260	334	800
Contents only (£'s)	78	98	108	131	148	206	400
Combined (£'s)	210	246	276	330	408	540	1200

Policy holders will not need to contact Flood Re directly. Flood Re will work with their insurers "in the background" and policy holders will continue to contact their insurer directly or via their broker as they have done in the past.

For further information Flood Re has its own dedicated website at: <http://www.floodre.co.uk>.

**2. Conclusion**

Members of the Flood and Drainage Management Scrutiny Committee are invited to consider and comment on the Floods Re scheme now in operation.

### **3. Consultation**

#### **a) Policy Proofing Actions Required**

n/a

### **4. Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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