

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

Report to:	Flood Risk and Drainage Management Scrutiny
Date:	05 September 2014
Subject:	The Flood Reinsurance (Flood Re) Scheme - Regulations

Summary:

This report outlines the implications of the Government's Flood Reinsurance (Flood Re) Scheme and considers the consultation on the subsequent Regulations.

Actions Required:

To consider and comment on the consultation for the Flood Re Regulations.

1. Background

The home insurance market in the UK is peculiar in the extent to which private insurance cover for floods is widely available as a standard peril covered by general home insurance without direct Government involvement in the market (either through public insurance or ex-post compensation). This is largely the result of a succession of agreements between Government and the insurance industry since the 1960s, following a series of major flood events.

Through these agreements, the insurance industry broadly agreed to make flood cover a widely available part of household insurance, in return for an undertaking from Government to provide adequate investment in flood management.

Under the current "Statement of Principles" agreement between the Government and the Association of British Insurers (ABI), members of the ABI are required to make insurance cover for flooding available to some, but not all, properties in areas of significant flood risk. The Statement of Principles does not control or limit the price that insurers can charge, but it is accepted that in practice the insurance industry (limited to members of the ABI) provides flood cover for all. This implies a measure of cross-subsidy from those of lesser risk to those at greater risk, keeping premiums at a relatively reasonable level, even for those at very significant risk.

The Statement of Principles is due to expire, and the Government has been exploring a longer-term replacement.

Flood Re – Consultation

In July 2013 the Government consulted on provisions it intended to make through the Water Act (known as Flood Re) to ensure that **domestic** property insurance continues to be widely available and affordable in areas of flood risk in the UK.

This reflects the understanding that households in flood risk areas are more likely than in the past to be charged a premium that relates to their risk of making a claim, due to improvements in predicting the risk of flooding (e.g. better modelling and improved flood maps - including surface water) and the expiry of the Statement of Principles. This makes it possible for insurers to increasingly differentiate properties (and therefore premiums) based on flood risk.

The Government believes that in the long term this will help build greater awareness of flood risk, and encourage steps to be taken to reduce the risk of flooding, but that in the shorter term many households might struggle to afford ongoing cover.

As a result, Government has consulted on a transitional (up to 25 years) Flood Reinsurance (Flood Re) scheme which aims to set up a not-for-profit reinsurance body. It is proposed that the reinsurance body will be run and managed by the insurance industry and funded through a levy on insurers, intending to replicate the level of cross subsidy that currently exists in the market. The scheme is intended to effectively limit the cost of flood insurance for properties at the highest risk (around 1-2% of domestic households), with the level of premiums varying accordingly to Council Tax band.

The Flood Re Regulations – Consultation

The legislation for the Flood Re Scheme received Royal Assent on 14 May 2014 through the Water Act 2014 and the Government is now consulting on the detailed secondary legislation (Regulations) necessary to implement the scheme, which it intends will come into effect on 6 April 2015.

The consultation document is included as Appendix A, and the regulations at Appendix B. The main aims of the regulations are to (a) promote the availability and affordability of flood insurance for household premises while minimising the cost of doing so and (b) manage over the period of operation of the scheme, the transition to risk-reflective pricing of flood insurance for household premises.

The Regulations include:

- Establishing Flood Re as an autonomous body (regulated by Government), and overseen by a 'Scheme Administrator' to collect a levy from all relevant insurers in order to purchase re-insurance for policies 'ceded' to Flood Re.

- The upper limit to the premiums that the Scheme Administrator can charge insurers to purchase flood reinsurance are detailed below:

Council Tax Valuation Band	Combined Policy	Buildings only Policy	Contents only Policy
A	£210	£132	£ 78
B	£210	£132	£ 78
C	£246	£148	£ 98
D	£276	£168	£108
E	£330	£199	£131
F	£408	£260	£148
G	£540	£334	£206

Notwithstanding the requirements below the amounts are subject to increases relative to the Consumer Price Index.

- The requirement for the Scheme Administrator to publish, within 3 months, a 'transition plan' for managing the transition to "risk-reflective" pricing of flood insurance and setting out how this will be achieved. The plan must be updated regularly and at least every 5 years.
- The requirement for the Scheme Administrator to provide information to insurers regarding how prices might change, as a result of transitional arrangements in a format which can be passed to policyholders, in order to raise awareness and help households prepare for free market pricing and reduce their vulnerability to flooding.
- For the insurers to maintain a direct relationship with their customers, with policyholders paying premiums and making claims directly to them. However, if an insurer calculates that the flood risk element of the policy will cost more than the premium threshold, they can cede the flood risk part of the policy to Flood Re.
- For the insurance companies to inform the policyholder that their property is reinsured via Flood Re including providing information on how customers can find out about their level of flood risk; a pre-requisite for better flood risk management at property level.

2. Conclusion

The Committee are asked to consider and comment on the consultation for the Flood Re Scheme Regulations which closes on 16 September 2014.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	The Flood Reinsurance Scheme - Regulations Consultation July 2014
Appendix B	<ol style="list-style-type: none">1. The Flood Reinsurance Scheme Funding and Administration Regulations 20152. The Flood Reinsurance Scheme Administrator Designation Regulations 20153. The Flood Reinsurance Scheme Designation Regulations 2015

5. 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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