12 March 2020

Neil Parish MP, Rachel Reeves MP and Philip Dunne MP
House of Commons
London
SW1A 0AA

Dear Mr Dunne, Ms Reeves and Mr Parish

Further to your letter on 4 March 2020 to the Secretary of State for Environment, Food and Rural Affairs, Rt Hon George Eustice MP, we write to provide further information on Flood Re and the flood insurance market.

The insurance industry launched Flood Re in April 2016 with widespread cross-party support to address a known failure in the home insurance market to be able to continue to provide access to affordable flood insurance. Since being launched, **300,000 flood risk households have benefited** from access to affordable flood cover. Four out of five householders who have had a previous flood claim seeing a price **reduction of more than 50%** in their home insurance. Independent research has also shown that **99% of householders whose property has flooded previously are able to receive quotes from five or more insurers** – compared to 0% before the introduction of the scheme.

The insurance industry is committed to continuing to support Flood Re in achieving its aims and - 94% of the UK home insurance market provide access to policies backed by Flood Re. The scheme is funded by a statutory levy of £180m per year which is in turn funded through the premiums paid by low flood risk households.

We recognise that each of you understand the benefits that Flood Re has already provided to households at flood risk who previously struggled to access affordable insurance. We also understand that there is a desire in some parts for Flood Re to be extended to cover certain properties that are out of scope, with the recent flood events bringing this into sharper focus. These were carefully considered with the Government and opposition parties before Flood Re came into effect and we thought it would be helpful to set out the reasons why certain properties are not within the scope of Flood Re. We believe that these reasons remain pertinent today.

Domestic properties built after 1 January 2009

Flood Re does not provide reinsurance cover for domestic properties built after 1 January 2009. This exemption is important to discourage further inappropriate development in high flood risk areas. Government guidance is very clear that new properties should not be built where they are at risk from flooding and we are calling for stronger monitoring of local authority planning decisions to ensure that inappropriate development in these areas is not approved.

We still remain concerned about the number of properties that are granted permission to be built in high flood risk areas, storing up problems for the future. There is a clear risk that if the goalposts are changed with respect to 1 January 2009, a commitment that underpins Flood Re, developments in high-risk areas are encouraged by the presumption that subsidised insurance cover will be available for them in the future. In effect the construction industry would be able to profit from high risk development knowing that ordinary insurance customers will pick up the tab.

The 2009 exemption is an extension from previous agreements between the insurance industry and the UK Government, which were known as the 'Statement of Principles'. These agreements meant that insurers committed to offering renewals to existing flood risk properties provided there was a certain level of flood risk protection planned. From 2008 these agreements excluded properties built after 1 January 2009 and this was subsequently brought forward into Flood Re.

Small businesses

Flood Re was never designed to provide a solution for access to affordable insurance for small businesses. Overall, the insurance industry is not aware of a systemic, widespread failure of market provision for flood insurance for small businesses. This was also the conclusion of Defra research into the issue in 2015 and 2017. It is important to remember Flood Re is based on an inherent cross-subsidy between domestic homes at low flood risk and those at high flood risk. To extend the existing scheme to include small businesses would therefore mean that private individuals living in low flood risk households would be subsidising the insurance premiums of high flood risk commercial enterprises.

The sheer variety of businesses, and types of business property, would make a separate, commercial scheme akin to Flood Re incredibly complex to develop and implement. Businesses need a range of types of insurance depending on their turnover, the nature of their stock and the type of business they operate and therefore there is not a standardised business policy unlike household policies. This makes it fundamentally more difficult to design a collective system. Flood Re also uses Council Tax bands as a means to determine affordability, whereas a similar proxy for small businesses is difficult to envisage.

A separate scheme for businesses would also present the problem of a high flood risk, yet profitable business, such as a boutique by the river in Windsor, being subsidised by a struggling High Street business in Darlington at low flood risk.

In addition, since Flood Re was established, other market-led solutions have developed specifically designed to help businesses at high flood risk. Given the majority of commercial business insurance is bought through a broker there is the opportunity for targeted broker-led approaches to provide cover, or for Government-backed support for businesses that cannot access flood cover to be considered.

Flood Re Quinquennial Review

As part of Flood Re's first statutory Quinquennial review, Flood Re has made recommendations to Government on how improvements can be made to the scheme and enhance the UK's resilience to flooding. The recommendations include working with insurers to "Build Back Better" homes after a flood, allowing the payment of claims to include an additional amount for resilient repair, and the ability for those householders who proactively install flood resilience measures to benefit from discounted premiums on their home insurance policies.

The ABI and Flood Re look forward to continuing to work with you and the Government to improve the UK's resilience to flooding and ability to adapt to the increasing risk from climate change. If you would like any further information or would like to meet to discuss Flood Re and the property insurance market in more detail, please do not hesitate to contact us.

Yours sincerely

Huw Evans
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Andy Bord
Chief Executive Officer, Flood Re