SCOTTISH FLOOD FORUM

Securing the future availability and affordability of home insurance in areas of flood risk

The Scottish Flood Forum is a charitable organisation dedicated to supporting flood risk communities in Scotland. It helps people to recognise, understand and reduce their flood risks and also helps people to recover if they have been flooded.

The Scottish Flood Forum (SFF) welcomes the opportunity to comment on the proposals that have emerged following the June 2013 Memorandum of Understanding between the UK Government and the Association of British Insurers on Flooding and Insurance. Our overall response to the consultation, which we share with the National Flood Forum, is underpinned by the following three criteria:

1. Affordability – flood risk insurance needs to be affordable for everyone as part of household insurance
2. Accessibility – insurance needs to be accessible to everyone, especially those in high risk areas
3. Social justice – we must ensure that those who are most vulnerable, because of the risk or because of their circumstances, such as age or disadvantage, are protected.

It is essential that the final detailed agreement between the UK Government and the Association of British Insurers addresses all three criteria. Our responses to specific questions not only reflect the views of the SFF but also the views of Community Flood Groups in Scotland.

In general we endorse the levy and pool model which forms the basis for Flood Re and view the alternative Flooding Insurance Obligation as a poor second best option. But crucial to the success of Flood Re will be its detailed implementation. Many of the responses to specific questions below invite Defra to revisit key details in the Flood Re proposal.

Responses to specific questions posed in the Consultation

Q1. Do you have an evidence of small businesses experiencing difficulty with the availability and affordability of property insurance due to the risk of flooding?
An issue requiring clarification is the status of small businesses which are based in domestic accommodation. These might include Bed and Breakfasts and companies whose registered office is also a domestic residence. Will such properties be included in the Flood Re option?

Q2. Do you agree with the Government's policy objective for flood insurance?
Overall we welcome the approach taken by the UK Government in seeking to ensure the continued availability of flood insurance. We also endorse the approach taken by both the UK and Scottish Governments in promoting a more sustainable approach to managing flood risk as exemplified by the Flood Risk Management (Scotland) Act 2009. But crucial to delivering flood risk management is effective and efficient flood insurance in which due regard is given to the installation of resistance and resilience measures. Property level protection lies at the heart of strategies to encourage householders to better manage their individual flood risk. See answer to Q6 below.

Q3. Do you agree with the approach taken to analysing the different potential solutions in the Impact Assessment?
The Impact Assessment usefully summarises the monetised impacts of flooding under the four options. But there is no attempt, in a separate analysis, to assess the social impacts of flooding under each of the four options. Given the recent emphasis in much UK and Scottish Government flood risk management policy to include social costs in impact assessments this is a major omission. Well-attested social impacts include deterioration in physical and mental health, loss of memorabilia, stress of the flood itself, stress of dealing with loss-adjusters, insurers and builders, stress of having to relocate, and worry about future flooding.

Q4. Do you agree with the evidence presented in the Impact Assessment?
Yes: but as noted above, the evidence presented solely addresses economic impacts.

Q5. Do you have any further evidence which has not been considered in the Impact Assessment?
Reference in the Impact Assessment could have been made to Defra's own *Climate Change Risk Assessment for Floods and Coastal Erosion Sector* (Defra Project Code GA0204) Appendix 6 (Social Vulnerability Checklist) and other attempts to assess social vulnerability. The recent Joseph Rowntree Foundation reports (O'Neill J and O'Neill M, 2012 Social justice and the future of flood insurance: Lindley S *et al*., 2011 Climate Change justice and vulnerability) summarises much of the most recent work in this area. In terms of evidence specific to impacts in Scotland, the CREW report by Ball *et al*., (2012) commissioned by the Scottish Government *Flood insurance provision and affordability: beyond the Statement of Principle: implications for Scotland* (available from www.crew.ac.uk) has useful data on affordability.

Q6. Do you support the Government's proposed approach?
Yes. In general the SFF supports the Government's overall approach subject to the qualifications noted below in answer to specific aspects of Flood Re. We strongly endorse the proposal that all insurers will have to be included under both Flood Re and the Flood Insurance Obligation. This should reduce, and ideally remove, the practice of 'cherry-picking' households by smaller insurers who are not members of the ABI.

Whilst generally welcoming Flood Re as a replacement for the Statement of Principles, there is a danger that it may lead to policy-holders being disinclined to undertake property level protection measures to reduce flood risk. Given capped premiums and excesses (<£500), there would be little incentive to invest in resistance and resilience measures. This runs counter to attempts across the UK to encourage investment in such measures as part of the shift to householders taking direct personal responsibility for reducing flood risk. The solution that property level measures be made mandatory for homes covered under Flood Re is too draconian. The alternative that insurers offer a reduction in premium once property level protection measures have been installed to an agreed technical standard, would retain some incentive primarily in terms of reducing the impacts of future floods.

Q7. 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?
Many of the issues related to eligibility and affordability commented on below in terms of implementing Flood Re will apply to the Flood Insurance Obligation.

Flood Re
Q8. Do you agree that setting the 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 use of council tax bands to set eligibility thresholds is generally equitable and has the merit of being relatively simple to administer. However, council tax bands for England differ from those for Scotland (which are significantly lower), and this will need to be taken into account when Flood Re is implemented. The council tax bands in Scotland (based on an assessment of property values in April 1993) are currently:
A: below £27,000. B: £27,001 to £35,000. C: £35,001 to £45,000. D: £45,001 to £58,000.
E: £58,001 to £80,000. F: £80,001 to £106,000. G: £106,001 to £212,000.

Q9. 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 households?
The maximum price for the flood insurance component of £210 for Band A and Band B households is too high and the maximum prices for Bands C (£246) to G (£540) too low. The CREW report *Flood insurance provision and affordability: beyond the Statement of Principles: implications for Scotland* (available from www.crew.ac.uk) provides evidence in support for higher subsidies for households in Bands A and B.

Based on a postal questionnaire sample of 157 households in high flood risk areas in Scotland, the average premium for buildings and contents was £398. Lower-income households from this survey (<£11,000) reported that, in terms of 'willingness to pay', an increase in the annual premium of £100-200 per year for buildings and contents and £100 for contents only would be 'difficult'. The typical 'overall price of £650 charged to the policy holder' under Flood Re in Council Tax Bands A and B represents an increase of nearly £250 over the current average cost for buildings and contents cover of £398.

The subsidy for households in Council Tax Bands A and B could be increased by EITHER decreasing the level of subsidy for Council Tax Bands C to G, OR by increasing the levy of £10.50 from non-eligible policy-holders to, say, £12, OR by a combination of both changes. We invite Defra to remodel the eligibility thresholds using both these revised criteria.

Q10. Do you agree that the following should be excluded from Flood Re:

a. Band H properties?

Whilst in general, householders in Band H will be more affluent than those in lower Bands, there will be vulnerable asset-rich and income-poor property owners for whom some mitigation of increased insurance costs is necessary. Such measures could include assistance from local authority social services to identify such householders, participation in any local community projects to reduce flood risk and support in undertaking property level protection and identifying the lowest insurance premiums.

b. New homes built after January 2009?

In general we endorse this exclusion which is consistent with the need to discourage development in high flood risk areas. But we note that planning regulations vary across the four UK administrations and due regard should be given to this.

In Scotland (under the current Scottish Planning Policy 2010) all potential developments in flood risk locations (defined as being within the 1 in 200 flood outlines in SEPA's Indicative River and Coastal Flood (Scotland) Map must be vetted by SEPA staff who can consent, consent subject to conditions, or object to a given proposal. Local Planning Authorities must then take into account such advice in line with their overarching statutory obligation to reduce overall flood risk. Although the effectiveness of this procedure has yet to be formally demonstrated, it appears to provide a more robust method for discouraging development in high flood risk areas than is currently operative under comparable planning procedures in England.

At present, high flood risk areas in Scotland exclude properties subject to surface water flooding and groundwater flooding for which hazard maps have yet to be published. These maps, due by December 2013, will identify additional post 2009 high risk properties ineligible for Flood Re.

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

Genuinely insurable properties will require precise definition presumably based on the probability of flooding – once every one to two years on average?

Q11. Should other exemptions also apply?

We do not recommend any other exemptions.

Q12. Do you agree that Flood Re should apply to both buildings and contents insurance?

Flood Re should include all three forms of insurance cover (buildings, contents and buildings and contents). Low income groups are often reluctant to take out any form of flooding insurance, especially if they live in rented accommodation. We strongly urge both the UK and Scottish Government to promote more vigorously "Pay with Rent" schemes available via some providers of social housing. This should be seen as policy initiative to accompany the roll out of Flood Re in 2015.

Q13. Do you have any comments on this proposed way of managing Flood Re's exposure to large losses?

It is unclear what will happen should a truly catastrophic flood (>1 in 200 year probability) occur at a national scale, akin to the 1953 East Coast storm surge, generating claims that exceed the funds held by Flood Re. Would this be seen as a national emergency triggering a response by the UK Government of providing flood relief to individuals as well as to local authorities under the existing Bellwin Scheme? If so, how would this be defined and managed?

Q14. 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?

Given that existing policy holders are already providing a cross-subsidy of £10.50, this is an acceptable levy to help reduce the premiums in high flood risk areas. See also answer above to Question 8 where we recommend that increasing this to, say, £12 could assist with improving affordability for Council Tax Band A policy-holders.

At present insurers treat the whole of the UK as a single market with premiums in lower risk areas providing a subsidy for premiums in higher risk areas. If, in the future, the insurers segmented the UK market reflecting differential levels of aggregate risk and/or performance in managing flood risk by the four administrations, then the level of subsidy and the operation of thresholds for Flood Re would have to be revisited.

Q15. Do you agree that Flood Re will secure the availability and affordability of household flood insurance in the UK?

Accessibility: The inclusion of all insurers under Flood Re is welcomed and crucially important. But, as noted in the answer to Q1, there is a lack of clarity as to whether some types of home-based businesses will be included.

<u>Affordability</u>: This has already been commented upon in the previous answer to Q9 and the need to increase the level of subsidy for Council Tax Band A households. But because the Impact Assessment has been based entirely on economic criteria (see answer to Questions 3 and 5), issues of social justice have been neglected. More work is needed on assessing the impacts of Flood Re on socially vulnerable groups as defined in the Joseph Rowntree Foundation reports by O'Nell and O'Neiil (2012) and Lindley *et al*., (2011).

Flood Insurance Obligation

Q16: Do you agree that the Flood Insurance Obligation has the potential to meet the policy objective?

Yes, but it is likely to prove very cumbersome to make operational (see answer to Q19)

Q17: 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 below a de minimis?

No, unless some effective mechanism can be identified to prevent these insurers form 'cherry picking' and distorting the market.

Q18. Do you agree that at this stage Ministers should have the option of applying the Obligation to both buildings and contents insurance?

All types of cover should be included under the Obligation.

Q19: Do you agree that the Environment 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, but this poses a number of major challenges:

- the proposal that SEPA help compile a property register will require considerable extra resources
- The outcome of the Scottish independence referendum in 2014 may also have implications for the UK-wide nature of the proposed arrangement.
- Under Flood Re, the selection of properties deemed to be eligible for inclusion in the scheme will be left to individual insurers. How would properties be identified for subsided premiums under the Flood Insurance Obligation given that the methodologies for defining 'high risk' for floods of varying origins vary across the four UK administrations?
- How will challenges to the register be handled if it can be demonstrated that the modelled data for the same category of high flood risk (river, coastal, surface water or groundwater) vary across the four UK administrations?
- How will the register be updated 2015-2040 given climate change impacts, population growth and changes in urbanised areas? The methods used for updating the register may also vary between the four UK administrations making a consistent definition of high flood risk problematic.

Q20. Do you agree with the broad duties envisaged for the regulator? Is anything missing?
Yes.

Q21. 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 businesses and consumers? Is there another approach not considered here?
No response.

Q22. 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?
No response

Q23. Do you agree with our preference that the Financial Conduct Authority should supervise compliance with the obligation, and be responsible for taking regulatory action against insurers who fail to meet their obligation, or should it be or the Environment Agency?
Agreed that the regulator should be the Financial Conduct Authority given its expertise in financial regulation.

Prof Alan Werritty (Company Secretary SFF)