Department for Environment Food & Rural Affairs

Amendments to the Flood Re Scheme

Consultation

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Contents

Ministerial Foreword 1

Introduction 2

Consultation 5

Discounted premiums for households with Property Flood Resilience (PFR) 6

Build Back Better 8

Levy I 11

Liability Limit 13

Use of Flood Re funds 14

Flood Re premiums 16

List of questions 18

How you can have your say 22

How to respond 22

Confidentiality and data protection 23

Ministerial Foreword

The recent impacts of Storm Christoph have brought a stark reminder of the challenges we face from flooding. Last winter was the fifth wettest winter on record since 1862 and was one which saw widespread damage caused across the UK. I visited some of those affected and saw first-hand the devastating impact that the floods had on residents and businesses.

We know that the risk and impact of flooding are expected to increase over the coming decades as a result of population growth and climate change. As we set out in the 25 Year Environment Plan, the government's priority is to "reduce the risk of harm to people, the environment and the economy, from flooding and coastal erosion". We launched our Policy Statement in July last year. It outlines five ambitious policies and over 40 supporting actions which will accelerate progress to better protect and prepare the country against flooding and coastal erosion in the face of more frequent extreme weather as a result of climate change.

In line with our commitments to better prepare communities for flooding, we also announced that we would consult on specific changes to the Flood Re Scheme which would require legislative change. In 2016 we launched the joint government and insurance industry initiative, Flood Re, as the government recognised there was a lack of available and affordable flood insurance for those living in high flood risk area. Since its launch, more than 300,000 properties have benefitted from the Scheme. Research commissioned by Flood Re has found that, before its introduction only 9% of householders who had made prior flood claims could get quotes from two or more insurers; now, 96% can receive quotes from five or more insurers. Furthermore, four out of five householders with a prior flood claim saw price reductions of over 50%.

Appropriate insurance is an important tool in supporting recovery from flooding and helping people to get back to normal more quickly. We want to ensure that flood insurance is both accessible and affordable for people in flood risk areas. The changes set out in this consultation aim to improve the efficiency and effectiveness of the Flood Re Scheme, and also to support Flood Re's purpose to manage transition to a risk reflective flood insurance market by the time they leave the market in 2039. These proposals seek to encourage greater uptake of Property Flood Resilience (PFR) among households at high risk of flooding across the UK and better support customers and insurers to recognise its benefits.

Rebecca Pow MP

Parliamentary Under Secretary of State (Minister for Domestic Environment)

Department of the Environment, Food & Rural Affairs

Introduction

Flooding causes an average of £1 billion of damage each year[1] to businesses and households in the UK, as well as significant harm and disruption to infrastructure, health, wellbeing, land and natural habits. Over the coming decades the risk and impact of flooding are expected to increase as a result of population growth and climate change.

Met Office records show there is a trend of increasing rainfall on seasonal and annual timescales. Since 1998 we have seen six of the 10 wettest years on record. For the most recent decade (2010–2019) UK summers have been 11% wetter than 1981–2010. UK winters have been 4% wetter than 1981–2010[2].

The flooding in South Yorkshire, Derbyshire, Nottinghamshire and Lincolnshire in November 2019 was (at the time) the most severe flooding event in the UK since December 2015. The Association of British Insurers (ABI) estimated that claims for November flooding alone were expected to reach £110 million[3].

The government is investing £2.6 billion between 2015 and 2021 to help manage these risks. This will attract more than £600 million of additional investment and will better protect 300,000 homes by 2021. Alongside this investment, the government is spending over £1 billion on maintenance of flood defence assets. Looking forward from 2021, the government will start to invest £5.2 billion in a new six-year capital investment programme for flood defences. This investment will better protect 336,000 properties from flooding and coastal erosion.

However, flood defences alone are not the solution to the risks posed by flooding, and even where defences do exist, they may be overtopped by severe flooding. It is important that communities take further action to prepare for flooding and limit the damage and disruption that flooding can cause.

On 14 July 2020, Defra announced its long-term plan to tackle the risks of flooding and coastal erosion in its long-term Policy Statement[4]. This ambitious plan sets out five key commitments – supported by over 40 clear actions – which will accelerate progress to better protect and prepare the country for the years to come. The Policy Statement represents the most substantive update to our national effort to tackle flood and coastal erosion risk in a decade - since the Flood Water Management Act 2010.

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[1] Estimating the economic costs of the 2015 to 2016 winter floods: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672087/Estimating_the_economic_costs_of_the_winter_floods_2015_to_2016.pdf

[2] State of the Climate 2019: https://rmets.onlinelibrary.wiley.com/doi/epdf/10.1002/joc.6726

[3] https://www.abi.org.uk/news/news-articles/2019/11/yorkshire-and-midlands-flood-damage-payouts-set-to-top-100-million-says-the-abi/

[4] https://www.gov.uk/government/publications/flood-and-coastal-erosion-risk-management-policy-statement

In our Policy Statement we set out how we will better support communities, including when flooding happens and in recovery afterwards. We will ensure our communities and business have the information they need to manage and prepare for their flood risk so that communities are better prepared. We want to ensure that flood insurance is both accessible and affordable for people in flood risk areas, and we want to encourage the uptake of Property Flood Resilience (PFR) measures to limit the damage and disruption flooding can cause. In the Call for Evidence running alongside this consultation we would like to hear your thoughts on the range of enablers which need to work effectively in order to unblock barriers and accelerate uptake of PFR.

Flood Re

Flood Re, a joint initiative between government and the insurance industry, was launched in 2016 to help address the lack of affordable flood insurance for households at high risk of flooding.

Flood Re does not deal directly with homeowners, but instead allows insurance companies to pass the flood risk element of home insurance policies over to Flood Re for a set premium based on council tax bands. The premiums charged by Flood Re to insurers are set under the Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 ("the Regulations") and vary by the council tax band of the insured property. The Regulations specify the maximum premium thresholds for each council tax band and provide for an increase by Consumer Price Index (CPI) thereafter. The Regulations allow Flood Re to vary the premiums it charges, so long as these do not exceed the specified threshold. In addition, flood claims on ceded polices come with a fixed excess of £250 per claim. When there is a flood, Flood Re will pay the insurer the cost of the claim made by the policyholder. Flood Re is a reinsurer and is not consumer facing.

To date Flood Re has benefitted more than 300,000 households. Flood Re research found that before its introduction only 9% of householders who had made prior flood claims could get quotes from two or more insurers; now, 96% can receive quotes from five or more insurers. Furthermore, four out of five householders with a prior flood claim saw price reductions of over 50%.

Some properties fall outside the scope of Flood Re, including homes built after 2009 as this would be inconsistent with current planning policy. Expanding the Flood Re Scheme to include properties built after 2009 could incentivise development in flood risk areas. Changes to planning policy in 2006 set out that inappropriate development in floodplains should be avoided, and that where development is necessary in a flood risk area, it should be made safe and appropriately flood resilient, without increasing flood risk elsewhere. Properties built since 2009 should therefore be insurable at affordable prices.

Businesses are also outside the scope as Flood Re is funded via a levy on UK household insurers. Business insurance operates differently to household insurance – it is often bespoke, based on the individual nature of the business. There is no evidence of a systemic problem for businesses at high flood risk not accessing insurance. Research in 2018 found that 2% of small businesses were not able to find suitable insurance cover for flood risk[5]. Expanding the scope of Flood Re to cover businesses would create a new levy on businesses, and could result in businesses across the country, and indirectly customers, subsidising profit-making organisations located at flood risk. Businesses in high flood risk areas can shop around for the best insurance quote and could consider using an appropriate broker. There are already a number of innovative products being offered to businesses by the industry such as the British Insurers Brokers Association scheme to help small and medium sized enterprises (SMEs) and provide flood cover for those that are ineligible for Flood Re. Other innovative solutions include insurers who offer increased flood excess with reduced premiums, and parametric insurance which allows property owners to set the level of premium in line with an agreed level of risk.

Part of Flood Re's purpose is to help the UK flood insurance market move towards being risk reflective. This means that by 2039, insurers should be charging customers premiums according to their risk of flooding.

The Scheme, which operates across the UK and sits in a unique position between government and the insurance industry, which enables it to identify and act on opportunities to innovate within the insurance market and incentivise householders to take action to address their risk.

On 8 July 2019, Flood Re published their first Quinquennial Review (QQR) report 6. This report examined how the Scheme currently operates and made a number of proposals to government. These proposals intend to improve the Scheme's efficiency and effectiveness, and support Flood Re's purpose to manage transition to a risk reflective market. Last July we announced that we would be consulting on a number of proposals, including some which go further than those in Flood Re's report, and that require legislative changes to the Flood Re Scheme.

Separately, we are also progressing a number of non-legislative proposals, including working with HMT and Flood Re on Flood Re's QQR proposal to invest part of its capital in a wider range of investments. In line with government's Green Financing initiatives we encourage the exploration of the options available to invest in green financing where there is clear Flood and Coastal Erosion Risk Management benefit, where appropriate. We are exploring a framework which would allow Flood Re to do this. We are also exploring the alternatives to Flood Re's current stop loss reinsurance arrangements.

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[5] http://sciencesearch.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&ProjectID=19990&FromSearch=Y&Publisher=1&SearchText=FD2705&SortString=ProjectCode&SortOrder=Asc&Paging=10#Description

[6] Quinquennial Review: https://www.floodre.co.uk/wp-content/uploads/QQR_FINAL.pdf

Consultation

This consultation seeks views on a number of the proposals relating to Flood Re, some of which were set out in their first Quinquennial Review Report, published in July 2019.

The first two of these proposals seek to encourage householders and insurers to install Property Flood Resilience (PFR) by offering financial incentives to do so. PFR is a vital part of the toolkit for managing flood risk. It refers to measures that can be used in a property to reduce the risk of flooding and levels of damage. PFR is a key component of Flood Re's plan for the transition towards a risk reflective home insurance market for those at risk of flooding by 2039. Last July, we set out in our Flood and Coastal Erosion Risk Management Policy Statement our commitment to consider how to remove barriers to, and encourage greater uptake of, PFR among households at high risk of flooding.

The next two proposals are technical measures intended to improve the efficiency of the Flood Re Scheme. We want to see the Scheme working as efficiently as possible and demonstrating good value for money wherever possible.

The next proposal explores whether there is more that the Flood Re Scheme could do to accelerate the uptake of PFR, including whether to enable Flood Re to spend any surplus it accrues (above and beyond what it requires to operate and meet its regulatory requirements) on further transitional activities.

The last part of the consultation explores whether Flood Re premiums should be reduced.

The purpose of this consultation is to understand whether these proposals are supported and whether there may be unintended consequences for insurers or other stakeholders.

As Flood Re operates across the whole of the UK, these measures would take effect in England, Wales, Scotland and Northern Ireland. We therefore welcome responses from organisations and individuals from all four nations.

Discounted premiums for households with Property Flood Resilience (PFR)

PFR means taking action to stop water entering a property, or if it does, reducing the level of damage it causes. Not all homes can be protected through community level flood defences as they may be unaffordable or unsuitable, and where they exist, they may be overtopped. Use of PFR does not provide a guarantee that a property will never experience a flood. However, it will reduce the chance of and/or level of damage and the consequential disruption to the lives of those impacted by flooding.

In their QQR Report, Flood Re made a proposal to offer cheaper premiums to households who had fitted PFR. Increasing uptake of PFR is one of the key levers available to Flood Re to help increase household resilience to flooding. Whilst we know the insurance industry have been supportive of PFR in principle, we would like to see a greater link between the cost of insurance and PFR measures.

As Flood Re is a reinsurer and is not consumer facing, it will not offer discounted premiums directly to households – Flood Re would offer discounted premiums to insurers who cede policies to them, and insurers would pass those discounted premiums on to customers.

To improve the data on the effectiveness of PFR, Flood Re propose to ensure that properties with PFR are recorded and the data is used to build an evidence base on the uptake and possible impact of PFR. If suitable, we aim to use the data to stimulate professionals and insurers within the insurance industry to account for any possible reductions in damages caused due to PFR. Government and Flood Re share the view that we need to be confident that PFR measures are to an effective standard to ensure flood risk is reduced.

As part of our implementation of the Policy Statement, the Call for Evidence running alongside this consultation seeks evidence to unblock barriers relating to PFR. We intend to build on existing data and evidence to inform our future policy. We will consider the results of this consultation and the adjacent Call for Evidence in the round, and we will seek to develop a framework to underpin the development of the PFR sector.

1. **How far do you agree or disagree that Flood Re should offer discounted premiums for householders who have installed PFR?**

    - **Agree**
    - **Neither agree or disagree**
    - **Disagree**
    - **Don’t know**

2. To what extent do you think that Flood Re offering discounted premiums for householders who have installed PFR will help to incentivise uptake of PFR in high risk <u>households</u>?

- **A great extent**
- **A moderate extent**
- **Some extent**
- **A small extent**
- **Not at all**
- **Don't know**

Please give reasons to support your answer.

3. How far do you agree or disagree that Flood Re offering discounted premiums for householders who have installed PFR will incentivise <u>insurers</u> to offer discounted premiums?

- **Agree**
- **Neither agree or disagree**
- **Disagree**
- **Don't know**

4. Do you foresee any unintended consequences of offering discounted premiums to householders with policies ceded to Flood Re who have taken steps to install Property Flood Resilience?

5. What is the best way that Flood Re could reduce insurance premiums for those with appropriate PFR measures installed?

- **Apply the same reduction to all qualifying policies**
- **Apply reductions based on a rating of the effectiveness of the PFR installed, with higher percentage reductions applied to those who have installed more highly rated PFR**
- **Apply reductions based on Council Tax band, with higher percentage reductions applied to those in a lower Council Tax band**
- **Apply a percentage reduction dependent on the value of property and contents cover.**
- **Other – please specify**

Build Back Better

Flood Re would like to be permitted to pay claims which include an amount of resilient and/or resistant repair (Build Back Better), above and beyond the like-for-like reinstatement of actual flood damage. This aims to reduce the future risk and/or future cost of repairing flood-related damage to the household. Normally, and without Build Back Better, when an insured house is flooded, the insurer covers the refurbishment of the house so that the house is brought back to the same condition as it was before the flood. However, this means that after repairs to the property have been carried out the household remains at the same level of risk for future floods.

This proposal is in line with our Policy Statement and ambition to see an increase in the uptake of PFR to limit the damage and disruption flooding can cause. Being able to build properties back better after a flood, rather than simply return a property to its original state, brings a number of benefits to householders. For example, if a property floods again, the recovery process should be smoother and less expensive than it would have been otherwise for both insurers and householders, and householders should be able to return to their properties quicker.

This proposal will increase the number of homes that are flood resilient and expand the evidence base on the financial and practical benefits, both to insurers and consumers. It will also support the development of a market in PFR products and services. We hope it will prompt insurers to consider making Build Back Better a standard part of their offer to customers through their home insurance policies. There are currently around 165,000 policies ceded to Flood Re who could benefit from this product, should they experience a flood event.

Build Back Better differs from the proactive installation of PFR as Build Back Better is triggered by a flood event. Incorporating this into the repair and rebuilding process is the most cost-effective way of making the affected household more resilient to future flood events[7].

This would only be applicable where a participating insurer made Build Back Better an automatic part of all flood risk cover for their other household insurance policies, not just those policies ceded to Flood Re. Flood Re cannot mandate insurers to offer Build Back Better as this is a commercial matter.

Flood Re are proposing to reimburse insurers up to £10,000 for Build Back Better in order to reduce the future risk of the property flooding and/or the cost of repair. Currently, neither the Regulations implementing the Flood Re Scheme, nor its Reinsurance Treaty (the agreement entered between Flood Re and each insurer) currently permit Flood Re to reimburse insurers for repair after a flood which makes the home more resilient to flood damage than before. This is because it would technically amount to "betterment". This

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[7]Enhancing the evidence base for property flood resilience: https://www.floodre.co.uk/enhancing-the-evidence-base-for-property-flood-resilience/

proposal would require amendments to the Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 and secondary legislation to revoke and remake the Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015 ("the Designation Regulations").

Whilst a few insurers already offer Build Back Better as a part of their commercial proposition, the competitive nature of the insurance market means that individual insurers do not always have the incentives to financially subsidise customers with PFR. This is because an insurer could invest in PFR in a property and the customer could then use a different insurer the following year, therefore losing the benefits of their investment. Flood Re are uniquely situated in the market so they can subsidise PFR measures without the risk of financial losses as a result of competition.

In line with the existing principles within the Flood Re Reinsurance Treaty, Flood Re will continue to expect insurers to demonstrate that claims are managed in a consistent way across policies whether they are ceded to Flood Re or not. This would require minimal changes to the way that Flood Re currently operates. Should they flood, a customer would claim through their insurer as normal, and the insurer would then claim from Flood Re if they had ceded the flood risk to them. Customers will not need to engage with Flood Re themselves. We expect insurers to be transparent with any funds offered for Build Back Better to ensure they reach customers.

We see the biggest financial risk of this proposal being the increased cost of claims, which will be managed by Flood Re by limiting the amount that can be spent on Build Back Better and using reinsurance where possible. It is expected that in the long-term this proposal would likely see a reduction in total claims costs as a result of reduced flood risk to properties. Flood Re have proposed to offer up to £10,000. This cap is based on current Build Back Better offers in the market and has sufficient financial prudence to not affect Flood Re's ability to operate or pay claims. It should be noted that the £10,000 figure is not a ''target' or an expected level of incremental spend per household but has been set to act as financial protection for the Scheme. Flood Re expects insurers to install only such measures that are appropriate to the level of future risk of the specific property and which are proportionate to the cost and circumstances of the claim.

We will work with Flood Re to capture evidence on the value for money and effectiveness of this proposal.

6. **Do you agree or disagree that Flood Re should offer Build Back Better to policies ceded to the Scheme?**

   - **Agree**
   - **Do not agree or disagree**
   - **Disagree**
   - **Do not know**

   Please give reasons to support your answer.

7. **What are the potential impacts of Flood Re offering Build Back Better? In your response, please state who is affected by each impact.**

8. **If betterment were offered in line with the proposal above, how effective do you think it would be at encouraging householders to consider fitting PFR?**

    - **Effective**
    - **Neither effective nor ineffective**
    - **Ineffective**
    - **Do not know**

    Please give reasons to support your answer. Please include details about what this change may mean for householders, insurers and/or the professionals who implement recovery work on behalf of the insurer.

9. **How far do you agree or disagree that insurers should be able to choose whether or not to offer Build Back Better as funded by Flood Re?**

    - **Agree**
    - **Neither agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons for your answer.

10. **Additionally, how far do you agree or disagree this proposal will encourage the insurance market to make Build Back Better a standard offer in policies ahead of 2039?**
    - **Agree**
    - **Neither agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons for your answer.

The next 4 questions seek views on the two technical changes proposed by Flood Re in their QQR report. These changes are intended to improve the efficiency and effectiveness of the Scheme itself and deliver improved value for money.

Levy I

Flood Re is funded through a levy on the UK household insurance industry, known as Levy I. Any UK insurer who offers home insurance in England, Wales, Scotland or Northern Ireland is required to pay towards this levy, with the amount they pay calculated based on their market share i.e. their gross written premium and the number of insurers operating in the market. The total levy is set in the Regulations and has been set at £180m p.a. since the Scheme was established in 2016. To avoid increasing costs for insurers the government have been clear that the levy should not go above £180m. This condition will remain.

At present, the Regulations specify that Levy I should be reviewed every five years. This aligns with other Scheme review cycles, including that for the Scheme liability limit and the Quinquennial Review. Flood Re have proposed that going forward, Levy I should be set on a three-year basis rather than a five-year basis. Such a change will require an amendment to the Regulations.

Flood Re have met their initial liquidity and capital requirements and have a high solvency ratio, meaning that the Scheme is financially secure. We consider it important that the levy is now made more flexible so that it can better reflect the true income needs of the Scheme. As all UK household insurers are required to pay towards Levy I, we estimate that the indirect cost to households of the levy is approximately £10.50 per household p.a. Therefore, any reductions are anticipated to benefit households in the UK. There will also be the opportunity for savings to be used towards financing the other proposals set out in this consultation. Changing the levy setting cycle to three years will also align it with Flood Re's reinsurance procurement programme and should enable them to obtain better value for money when purchasing reinsurance.

When setting the levy Flood Re have to balance the need for low premiums for policyholders with ensuring they have enough funds held in reserve to cover any losses as a result of a major flood event. This would still be the case whether the levy is set every three years or every five years.

As at present, any change to the levy needs to be agreed by government. As part of this process we would expect to work with actuarial experts to scrutinise Flood Re's modelling for the coming three-year levy period. A change in the levy would only be approved where Ministers were content that Flood Re's assessment of their income needs over the coming three years was enough to allow them to continue to operate the Scheme effectively and to carry out their transition aims. Once any proposed change to the levy is agreed, the Regulations would need to be amended.

11. **How far do you agree or disagree that Levy I should be set on a three years basis, rather than five years?**

    - **Agree**
    - **Do not agree or disagree**

- **Disagree**
- **Do not know**

Please give reasons for your answer.

12. **Are there any unintended consequences of changing the Levy I cycle from five years to three years?**

Liability Limit

Flood Re's liability limit sets the maximum amount of claims that Flood Re is liable to pay to insurers in any one financial year. The current liability limit is set at £2.244 billion (linked to Consumer Price Index) and was intended to be sufficient to ensure that Flood Re could meet claims for a 1 in 200 year flood event. As with Levy I, Flood Re's liability limit is reassessed every five years.

Flood Re have proposed that the setting of the liability limit should be changed to a three-year basis, so that it runs concurrently with the proposed setting of Levy I (detailed in previous section). Such a change would require an amendment to the Regulations, and the Designation Regulations would need to be revoked and remade. Flood Re also purchase reinsurance to protect the liability limit on a three-year basis, so this change would align any changes in the liability limit with Flood Re's purchase of reinsurance.

As with Levy I, this change would give Flood Re greater flexibility to respond to the Scheme's changing income needs and risk profile. Flood Re consider that this change will help them to respond more dynamically to changes in the market, procure their own reinsurance more efficiently, and assist insurers with more efficient business planning. Based on their own modelling, Flood Re do not believe that this change will have any impact on insurers who use Flood Re, or their solvency requirements.

As with any changes to Levy I, government would need to see and approve a change to the liability limit before it comes into effect. We will seek assurance before making any approval. Defra would ensure that there is prudence in the calculations made by Flood Re to reduce the risk of the liability limit being reduced before a significant flood event and resulting in Flood Re not being able to provide the full cover needed. Defra will work closely with Flood Re during the recalculation process to ensure that any recalculation is adequate.

13. **How far do you agree or disagree that three years is an appropriate setting period for the liability limit?**

    - **Agree**
    - **Do not agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons for your answer.

14. **What are the possible impacts of changing the period that the liability limit is set from five years to three years?**

Use of Flood Re funds

We would like to explore whether there is more that the Flood Re Scheme could do to accelerate uptake of PFR, including whether to enable Flood Re to spend any surplus it accrues (above and beyond what it requires to operate and meet its regulatory requirements) on further activities to support the transition to a risk reflective home insurance market for those at risk of flooding by 2039. There are different ways in which this could be achieved, some of which may require primary or secondary legislation.

Between 2016 and the end of 2019, the UK experienced limited flooding. This, coupled with Flood Re's levy being fixed at £180m since 2016, meant that in the first three years of its life Flood Re's income was significantly higher than its expenditure. [See questions 11-12 on providing Flood Re more flexibility in future years]. Flood Re is a not for profit organisation and as such should not be making a significant surplus or holding large amounts of money in reserve beyond what is necessary for the Scheme's operation and to meet regulatory requirements.

The Scheme's ability to spend is currently limited to the provision of reinsurance. Flood Re currently spends a proportion of its annual expenditure on activities which reflect its purpose to manage transition to a risk reflective flood insurance market by 2039[8]. This means that they are unable to spend money on activities which go beyond this yet support their long-term aim to reduce the damage and cost of flooding.

In line with government's ambition to better prepare communities and increase the uptake of PFR measures in high risk households, we want to understand whether there is more that Flood Re could do in this space. This would need to be balanced with the amount of levy charged.

15. **How far do you agree or disagree that Flood Re should be able to spend their funds, over and above what they need to operate as a commercial reinsurer, on a wider range of activities that contribute towards increased uptake of PFR?**

    - **Agree**
    - **Do not agree or disagree**
    - **Disagree**
    - **Do not know**

16. **What could be the impacts or consequences of Flood Re spending any surplus it accrues over a levy setting period (above and beyond what it requires to operate and meet its regulatory requirements) on further activities?**

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[8] Flood Re Transition Plan: https://www.floodre.co.uk/wp-content/uploads/2018/07/Flood_Transition2018_AW.pdf

17. **What activities would Flood Re be best placed to put money towards to accelerate the transition towards a risk reflective insurance market in the UK in 2039?**

Flood Re premiums

Evidence from Amanda Blanc's Independent Review of Insurance in Doncaster[9] suggested that the cheapest subsidised premium for contents insurance provided for by Flood Re (£52) may still be unaffordable for householders on low incomes, and that this could be leaving a gap in coverage. In particular, the report recommends that government should consider more direct ways to increase the take-up of contents cover for tenants in high flood risk areas.

Flood Re does not deal directly with homeowners, but instead allows insurance companies to pass the flood risk element of home insurance policies over to Flood Re for a set premium which varies by the council tax band of the insured property. The Regulations specify the maximum premium thresholds for each council tax band and provide for an increase by Consumer Price Index (CPI) thereafter. The current Regulations allow for Flood Re to vary the premiums it charges, so long as these do not exceed the specified threshold. In addition, flood claims on ceded polices come with a fixed excess of £250 per claim.

The table below provides details of the 2019/20 inward reinsurance premiums for properties ceded to the Flood Re scheme.

Tax band	England & Scotland	A	B	C	D	E	F	G	H
	Wales	A B	C	D	E	F	G	H	I
	N. Ireland	1	2	3	4	5	6	7	8
Combined		169	169	197	221	265	331	436	1218
Buildings		117	117	131	148	176	231	296	812
Contents		52	52	66	73	89	100	140	406

[9] https://www.gov.uk/government/publications/flood-insurance-review-2020-blanc-review

In 2019 Flood Re reduced their reinsurance premiums for all properties except those in the top council tax band by 12.5% for buildings and 33% for contents. This reduction followed Flood Re's decision not to increase premiums in line with inflation in 2018.

There are a number of considerations which Flood Re have to balance when considering the cost of the premiums. Therefore, this proposal could have wider implications for other Scheme parameters and would need careful consideration of any unintended consequences to meet regulatory requirements and ensure fairness across council tax bands. However, we welcome responses on this proposal at this stage.

18. **How far do you agree or disagree that Flood Re should further reduce the cost of their cheapest premiums?**

    - **Agree**
    - **Do not agree or disagree**
    - **Disagree**
    - **Don't know**

19. **What could the impact or consequence of Flood Re changing the cost of their cheapest premiums be?**

List of questions

1. **How far do you agree or disagree that Flood Re should offer discounted premiums for householders who have installed PFR?**

    - **Agree**
    - **Neither agree or disagree**
    - **Disagree**
    - **Don't know**

2. **To what extent do you think that Flood Re offering discounted premiums for householders who have installed PFR will help to incentivise uptake of PFR in high risk <u>households</u>?**

    - **A great extent**
    - **A moderate extent**
    - **Some extent**
    - **A small extent**
    - **Not at all**
    - **Don't know**

    Please give reasons to support your answer.

3. **How far do you agree or disagree that Flood Re offering discounted premiums for householders who have installed PFR will incentivise <u>insurers</u> to offer discounted premiums?**

    - **Agree**
    - **Neither agree or disagree**
    - **Disagree**
    - **Don't know**

4. **Do you foresee any unintended consequences of offering discounted premiums to householders with policies ceded to Flood Re who have taken steps to install Property Flood Resilience?**

5. **What is the best way that Flood Re could reduce insurance premiums for those with appropriate PFR measures installed?**

    - **Apply the same reduction to all qualifying policies.**

- **Apply reductions based on a rating of the effectiveness of the PFR installed, with higher percentage reductions applied to those who have installed more highly rated PFR**
- **Apply reductions based on Council Tax band, with higher percentage reductions applied to those in a lower Council Tax band.**
- **Apply a percentage reduction dependent on the value of property and contents cover.**
- **Other – please specify.**

6. **Do you agree or disagree that Flood Re should offer Build Back Better to policies ceded to the Scheme?**

    - **Agree**
    - **Do not agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons to support your answer.

7. **What are the potential impacts of Flood Re offering Build Back Better? In your response, please state who is affected by each impact.**

8. **If betterment were offered in line with the proposal above, how effective do you think it would be at encouraging householders to consider fitting PFR?**

    - **Effective**
    - **Neither effective nor ineffective**
    - **Ineffective**
    - **Do not know**

    Please give reasons to support your answer. Please include details about what this change may mean for householders, insurers and/or the professionals who implement recovery work on behalf of the insurer.

9. **How far do you agree or disagree that insurers should be able to choose whether or not to offer Build Back Better as funded by Flood Re?**

    - **Agree**
    - **Neither agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons for your answer.

10. **Additionally, how far do you agree or disagree this proposal will encourage the insurance market to make Build Back Better a standard offer in policies ahead of 2039?**

    - **Agree**
    - **Neither agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons for your answer.

11. **How far do you agree or disagree that Levy I should be set on a three years basis, rather than five years?**

    - **Agree**
    - **Do not agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons for your answer.

12. **Are there any unintended consequences of changing the Levy I cycle from five years to three years?**

13. **How far do you agree or disagree that three years is an appropriate setting period for the liability limit?**

    - **Agree**
    - **Do not agree or disagree**
    - **Disagree**
    - **Do not know**

    Please give reasons for your answer.

14. **What are the possible impacts of changing the period that the liability limit is set from five years to three years?**

15. **How far do you agree or disagree that Flood Re should be able to spend their funds, over and above what they need to operate as a commercial reinsurer, on a wider range of activities that contribute towards increased uptake of PFR?**

    - **Agree**
    - **Do not agree or disagree**

- **Disagree**
- **Do not know**

16. **What could be the impacts or consequences of Flood Re spending any surplus it accrues over a levy setting period (above and beyond what it requires to operate and meet its regulatory requirements) on further activities?**

17. **What activities would Flood Re be best placed to put money towards to accelerate the transition towards a risk reflective insurance market in the UK in 2039?**

18. **How far do you agree or disagree that Flood Re should further reduce the cost of their cheapest premiums?**

    - **Agree**
    - **Do not agree or disagree**
    - **Disagree**
    - **Don’t know**

19. **What could the impact or consequence of Flood Re changing the cost of their cheapest premiums be?**

How you can have your say

How to respond

This public consultation will run for 12 weeks from 1 February 2021. It is open to anyone with an interest in providing comments. Please provide answers that explain your opinions fully.

Please respond to this consultation using the Citizen Space consultation system: https://consult.defra.gov.uk/flood-insurance-preparedness-team/amendments-to-the-flood-re-scheme/

Responses by post or email should be clearly marked 'Consultation on amending the Flood Re scheme – response' and sent to:

Flood Insurance and Preparedness Team
Foss House
Kings Pool
1-2 Peasholme Green
York
YO1 7PX

floodinsurance@defra.gov.uk

The government will aim to publish a summary of responses within 12 weeks of the consultation ending.

Confidentiality and data protection

A summary of responses to this consultation will be published and placed on the government website at: www.gov.uk/defra.

The summary will include a list of names and organisations that responded but not personal names, addresses or other contact details. Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes these are primarily the Environmental Information Regulations 2004 (EIRs), the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 2018 (DPA). We have obligations, mainly under the EIRs, FOIA and DPA, to disclose information to particular recipients or to the public in certain circumstances.

If you want information, including personal data, that you provide to be treated as confidential, please say so clearly in writing when you provide your response to the consultation why you need to keep these details confidential. If we receive a request for disclosure under the FOIA, we will take full account of your explanation, but we cannot provide an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as a confidentiality request.

This consultation is being conducted in line with the Cabinet Office “Consultation Principles” and can be found at: https://www.gov.uk/government/publications/consultation-principles-guidance.

If you have any comments or complaints about the consultation process, please address them to:

Consultation Coordinator
Foss House
Kings Pool
1-2 Peasholme Green
York
YO1 7PX

Or email: consultation.coordinator@defra.gov.uk