

# Response ID ANON-J9KU-1YZ2-S

Submitted to **Amendments to the Flood Re Scheme**

Submitted on **2021-04-26 15:07:00**

## Ministerial Foreword

### Introduction

### Flood Re

### Consultation

#### 1 What is your name?

**Name:**

Steven Graham

#### 2 What is your email address?

**Email:**

Steven.Graham@actuaries.org.uk

#### 3 What is your organisation?

**Organisation:**

Institute and Faculty of Actuaries

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

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

Agree

#### 5 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 households?

Don't know

**Please give reasons to support your answer in the text box below. :**

We do not know the extent to which Flood Re offering such a discount would incentivise take-up, as it would depend on the:

- size of the discount relative to the cost of the Property Flood Resilience (PFR);
- extent to which consumers are made aware of the potential discount and how confident they are that they would get a discount; and
- extent to which insurers discount the cost of home insurance for those with PFR.

Although a response more directly related to Q1 above, we agree that Flood Re should offer discounted premiums to householders who have installed PFR; we support efforts to encourage PFR.

We note that any discounted premiums may have implication for the overall funding of Flood Re, but other funding aspects could, if required, be adjusted to compensate. Flood Re does not adjust premiums for the level of Community Level Flood Defences however, so may there be a fairness issue. Note further that a homeowner in a post 2009 property that puts in PFR cannot benefit from Flood Re, and would have to rely on their insurer to discount the premium.

#### 6 How far do you agree or disagree that Flood Re offering discounted premiums for householders who have installed PFR will incentivise insurers to offer discounted premiums?

Neither agree or disagree

#### 7 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?

**Please provide your comments in the text box below:**

One potential unintended consequence is disappointment in the relative contribution the consumer has made compared with any saving offered by the insurer. This may arise if there are unreasonable expectations regarding insurance premium savings when the homeowner is deciding to commission the building work, and it is therefore important that insurers set expectations regarding discounts appropriately.

More generally, there may be a role for an insurance industry body such as the ABI to encourage insurers to offer appropriate and attractive discounts.

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

Other – please specify

**If you selected "other, please specify" please provide your comments in the text box below:**

We believe that the premium reduction basis should be fair and not overly complex. A minimum level of PFR in order to qualify for a discount rather than reductions based on the level of PFR could be considered.

It would also be helpful to avoid methods that gave very small absolute discounts in comparison with the cost of the PFR. For example, the undiscounted premium for combined buildings and contents insurance is less than £250 for Council Bands A-D, so the maximum discount possible is certainly less than £250.

**Build Back Better**

**9 How far do you agree or disagree that Flood Re should offer Build Back Better to policies ceded to the Scheme?**

Agree

**Please give reasons to support your answer in the text box below. :**

We agree that Flood Re should offer Build Back Better to policies ceded to the scheme as this would help improve flood protection for properties that are prone to flooding. Incorporating resistance and resilience measures into repairs after a flood is an important way to help ensure homeowners can avoid the adverse impacts of any future flood event.

To date there is mixed evidence as to individuals' appetites towards these sorts of repairs, and little incentive for either party to opt for resilient repairs, despite the seemingly obvious benefits. This problem is heavily linked with individuals' understanding and interpretation of their home's risk of flooding again in future. If someone underestimates their future flood risk, even after having been flooded in the past, they may be tempted to take a chance and hope they will not be flooded again, forgoing resilience measures for the sake of aesthetics or upfront costs.

Furthermore, as Flood Re does not currently reimburse insurers for costs greater than the standard reinstatement after a flood, insurers do not typically pay for costs greater than the standard reinstatement cost.

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

**Please provide your comments in the text box below:**

Flood Re offering Build Back Better could incentivise insurers to do likewise.

**11 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?**

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.:**

N/a

**12 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?**

Disagree

**Please give reasons to support your answer in the text box below. :**

In our view, it is in the public interest for consumers to choose whether they want Build Back Better, rather than for insurers. If instead the choice were left to insurers, consumers may find the availability of a Build Back Better option to be limited.

**13 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?**

Do not know

**Please give reasons to support your answer in the text box below. :**

N/a

**Levy 1**

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

Do not agree or disagree

**Please give reasons to support your answer in the text box below. :**

We note that a shorter review period could lead to short term focus/ thinking in relation to what is a long term issue. However, safeguards to avoid short term influence could be put in place, such as it being easier to increase Levy I, as opposed to decreasing it.

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

**Please provide your comments in the text box below:**

As in our answer to Q14 above, a reduction in the Levy I cycle review period could lead to a shorter term focus on the future operation of Flood Re.

**Liability Limit**

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

Do not agree or disagree

**Please give reasons to support your answer in the text box below. :**

Although we mention a potential adverse consequence in reducing the Levy I review period, we believe that it is sensible to have the Levy I and liability limit review periods aligned. So if the Levy I review period were reduced to three years, then the liability limit review should run concurrently with this.

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

**Please provide your comments in the text box below:**

N/a

**Use of Flood Re funds**

**18 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

**19 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?**

**Please provide your comments in the text box below:**

Given Flood Re's role, we support the principle of it being able to use its funds on well-defined projects that improve the resilience of communities and individual properties to flood events.

However this has to be balanced against the uncertainties in its future financial performance. In some respects, we disagree with the statement: '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'. Operational or regulatory requirements may change over time, and what seemed sufficient at one point may turn out later to fall short. It may therefore be in the public interest throughout the period to 2039 for Flood Re to build up a significant surplus, or to hold reserves beyond what is, at a point in time, considered necessary for the Scheme's operations and regulatory requirements. As mentioned in the consultation paper, there were years where Flood Re's income was significantly higher than its expenditure, but the converse could readily be true in future.

**20 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?**

**Please provide your comments in the text box below:**

It may be appropriate for Flood Re to invest in well-defined projects that improve the resilience of communities and individual properties to flood events, such as flood defences and sustainable drainage systems, for example.

A related issue is the question of where any Flood Re surplus is allocated on exiting the market in 2039. It could be argued that it is in the public interest for the final surplus over regulatory requirements to be earmarked for flood resilience projects rather than returned to insurers. This could be justified on the basis that it was the public, through their insurance premiums, that funded Flood Re, rather than insurers.

**Flood Re premiums**

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

Do not agree or disagree

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

**Please provide your comments in the text box below:**

Although Flood Re reducing premiums should increase take-up of relevant flood insurance in theory, it may not be so effective in practice. As well as lack of affordability, other factors likely to hinder insurance take-up are lack of awareness of the risks householders may face given a flood event, and the degree of corresponding protection from relevant flood insurance cover. Furthermore, there may also be a lack of awareness of flood insurance cover actually in place in the case of tenants, where insurance cover may be provided by landlords (or otherwise). Therefore, we believe increasing householder awareness of flood risk and insurance protection is particularly important in increasing flood insurance take-up. Without this, any reduction in Flood Re's lowest premiums may have a more limited impact than otherwise could be the case.

The consultation paper notes that businesses are outside the scope of Flood Re, and that the basis of business insurance differs from that of household insurance. Whilst that may reflect the status quo, it is likely that as the economy evolves post Covid-19, more homes will act as business premises. We therefore believe it would be in the public interest to reconsider the needs of such businesses, and any corresponding gaps in insurance.

**Confidentiality and data protection**

**23 Would you like your response to this consultation to be confidential?**

No

**If you answered yes to this question please provide a reason in the text box below. :**