



Flood Re: an innovative public/private partnership to deliver affordable flood insurance

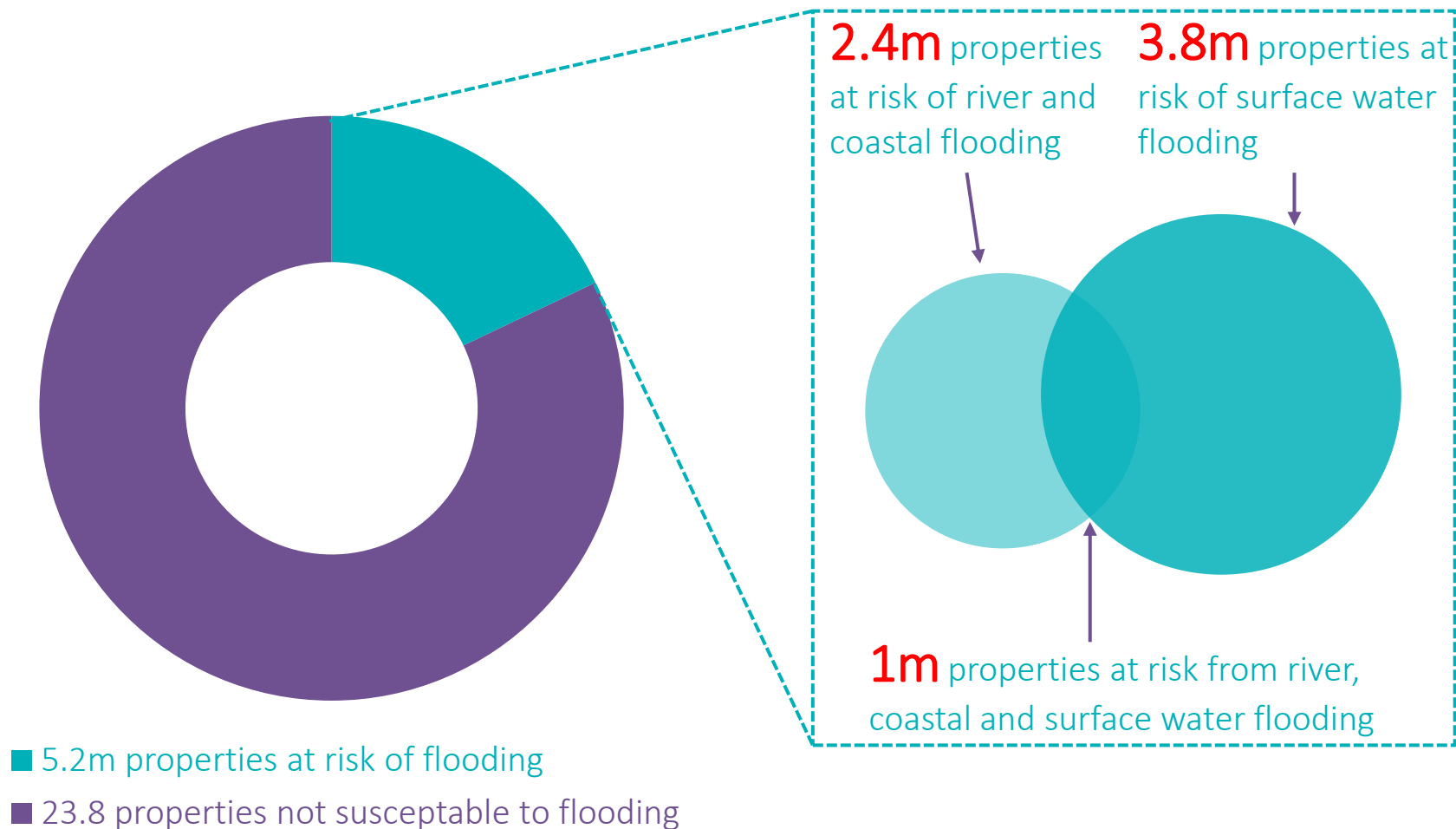
Dr Alastair Horn, Interim Programme Director

8th June 2016

The street where I grew up flooded in 2002



Scale of Flood Risk in England



Environment Agency 2014

Climate Change and Flooding

- We expect **sea levels to rise** increasing the risk of coastal flooding.
- The frequency and severity of **rainstorms** will increase, increasing the risk of inland flooding.
- Without investment, climate change would mean 500,000 more properties would be at '**significant**' **risk of flooding** by 2035.



Flooding in recent years

2007 floods

- Total insurance claims cost: estimated at **£3bn**
- Total domestic claims: around 130,000 (50,000 major)
- 17,000 insured households into alternative accommodation

2009 Cumbrian floods

- Total insurance claims costs of around **£200m**

2012 floods

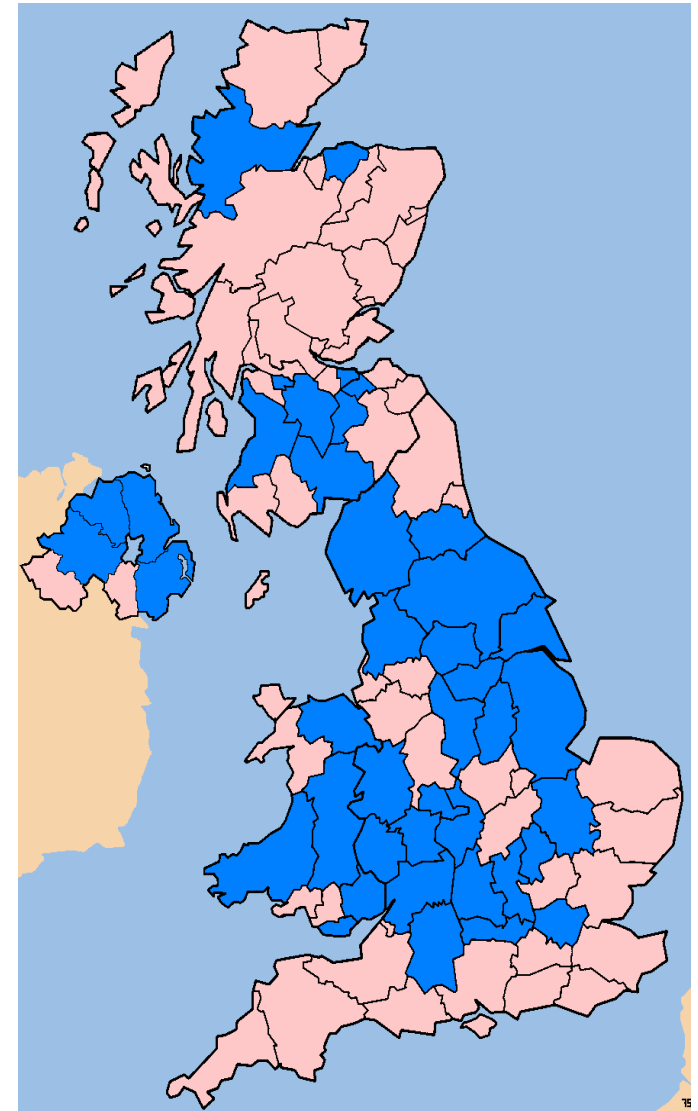
- Total insurance claims costs of **£594m**

2013/14 floods

- Total insurance claims costs of **£450m**
- 18,700 flood claims

2015/16 floods

- estimate to be paid by insurers **£1.3bn**
- 22,000 total flood claims



Previous Statement of Principles

- An agreement with Government, in place between 2000 and 2013 – the ‘Statement of Principles’:
 - Insurers continue to offer cover (i.e. offer renewals)
 - Government manages flood risk effectively
- Applied to both household and SME policies, for properties built before 2009. Larger commercial properties not covered
- Separate (but virtually identical) agreements for England, Scotland, Wales and Northern Ireland
- **All four expired on 30th June 2013**



Association of British Insurers

ABI STATEMENT OF PRINCIPLES ON THE PROVISION OF FLOOD INSURANCE Updated Version, November 2005

General policy

It is the intention of ABI members that flood insurance for existing domestic properties and small businesses should continue to be available for as many customers as possible. The premiums charged and other terms - such as excesses - will reflect the risk of flooding but will be offered in a competitive market. There is separate ABI guidance on flood risk and new development.

This revised Statement of Principles will apply from 1 January 2006 but is subject to review in the event of significant external shocks such as withdrawal of flood reinsurance. Successful operation of the Statement is dependent on action by the Government to manage flood risk effectively.

Current position

The majority of the 2.2 million properties in flood risk areas are already protected to a minimum standard of 1.3% annual probability (1 in 75 years) or better. However, around 15% of properties in the floodplain have a significant chance of flooding (greater than 1.3% annual probability). In some of these areas there are planned improvements to flood defences to reduce the risk, but there are other areas where there are no plans for improvement.

Despite these risks, insurers have continued to provide flood cover for the vast majority of customers in the UK.

Insurers' renewed commitment

1. Areas where flood risk is 1.3% annual probability (or 1 in 75 years) or less

Flood cover will be available as a standard feature of household and small business policies. The level to which properties are defended above this standard will vary considerably and premiums will reflect different degrees of risk. Highly populated coastal areas, in particular, should be protected to a higher standard because of the potential consequences should a flood occur.

2. Areas of significant flood risk (greater than 1.3% annual probability or 1 in 75 years) where improved defences are planned

Insurers will maintain flood cover for domestic properties and small businesses that they already insure where improvements in flood protection

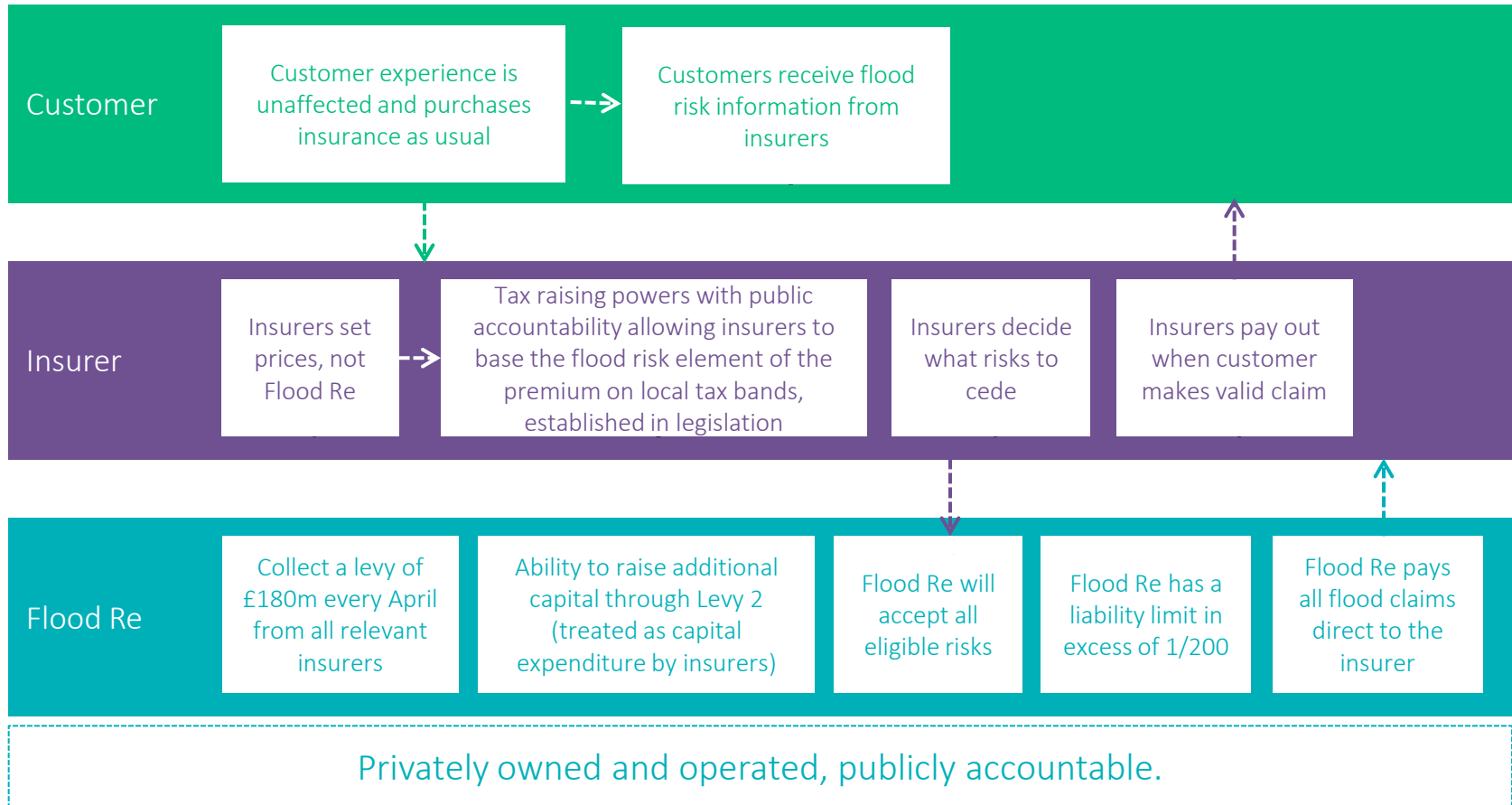
What is Flood Re?

- Solution to a long standing problem relating to the availability and affordability of flood insurance
- Likely to benefit up to 500,000 households
- Special Purpose Vehicle designed to create a reinsurance/ pool solution
- Authorised by the UK regulators in the same way other reinsurers are
- Owned and operated by the insurance industry with public accountability to Parliament – therefore needing Government involvement
- Life span of 25 years

What Flood Re is not

- Causing any change to customer experience – Point of Sale and claims
- Tasked with paying for property level resilience
- A primary response to climate change adaptation

How does Flood Re operate?



How is Flood Re funded?

A) For each policy to be ceded to Flood Re:

Ceded risk premium **charged to insurers** at a fixed price according to council tax bands:

Council Tax Band	A, B	C	D	E	F	G	H
Buildings Policy	£132	£148	£168	£199	£260	£334	£800
Contents Policy	£78	£98	£108	£131	£148	£206	£400
Combined Policy	£210	£246	£276	£330	£408	£540	£1200

B) All insurers writing UK household business:

- Levy 1 of £180m p.a.
- Capacity to call a second Levy from UK household insurers if required
- Insurers set retail prices – not Flood Re

What does Flood Re cover?

Eligible Properties:



- Insured in the name of individuals
- Must have a Council tax band (All Council Tax bands covered)
- Held for residential use
- Insured on individual basis
- Occupied by policy holder or immediate family some of the time or unoccupied

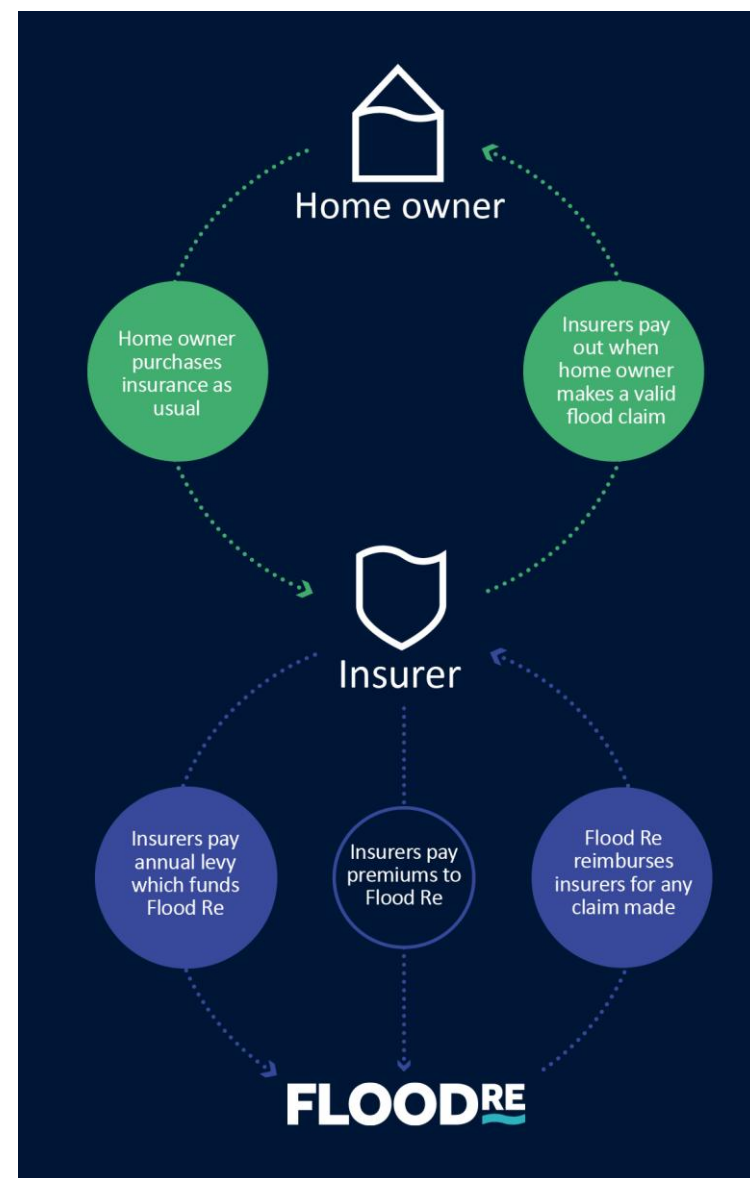
Out of scope:



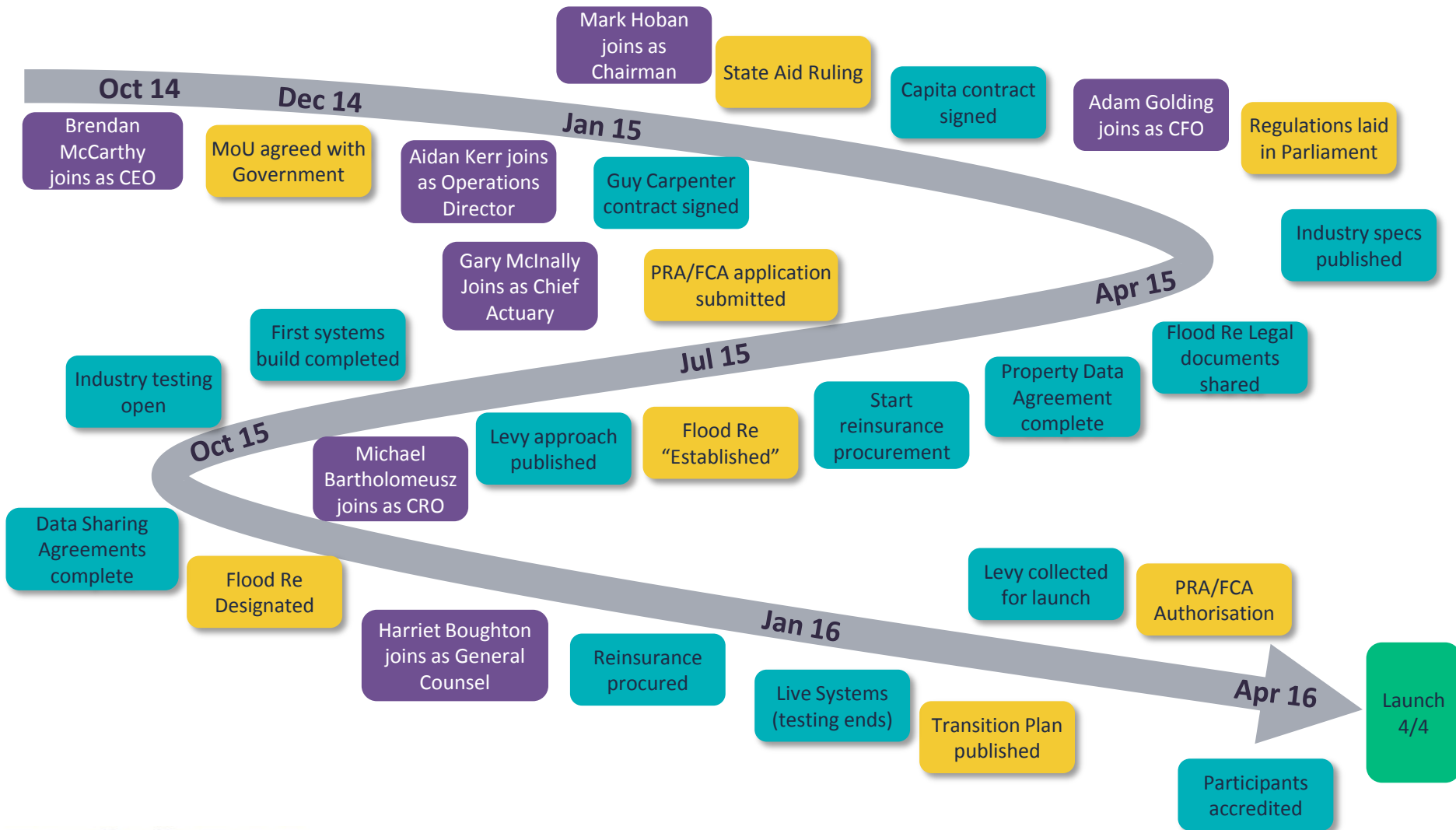
- Homes built on or after 01 January 2009
- Small businesses (business rated)
- Properties (4+ residential units)

What does Flood Re mean for customers?

- Flood Re makes no difference to the way customers buy home insurance
- Any claims made will continue to be handled by the insurance company
- With Flood Re in place customers should have greater choice of insurance policies and they should be more competitively priced
- Insurance company will continue to be responsible for setting the retail premiums



The journey to successful launch 4/4/16



Some of the brands working with Flood Re



..and more
being added
all the time

FLOODRE

Taking action to use Flood Re

As insurers

- ✓ Connect to Flood Re
 - ✓ Register
 - ✓ Sign legal agreements
 - ✓ Access property data
 - ✓ Test bordereaux processes
- ✓ Build into rating and claims processes
- ✓ Share Flood Re information

As brokers

- ✓ Don't connect to Flood Re
- ✓ Contact your insurer(s) and software house to check they are connected and offering Flood Re-backed products
- ✓ Write more business

What does the next 12 – 18 months hold?

Increased participation from the insurance industry

Currently 55% of the home insurance market are offering Flood Re supported products. We're working hard with other insurers, brokers and software houses to increase the number and channels including developing a Flood Re 'Lite' offering

Increasing awareness amongst consumers

Communicating with Parliamentarians, consumer and community groups to ensure the message is clear about the benefits of Flood Re

Transition plan

Mapping out the journey to risk reflective pricing over Flood Re's lifetime

Case studies

The Telegraph

Mrs Shipp from Surrey said: "I haven't been able to find any flood insurance that was anywhere near affordable. It was a £3,500 premium with a £30,000 excess in the first year, the second year it was a £15,000 excess.

Where previously she had been quoted thousands of pounds for flood insurance which had only been available through specialist brokers, she found that her options had improved.

Policies were available for as little as £425, with much lower excesses than had previously been available.

Western Gazette

Mr and Mrs Nightingale were flooded four times during the winter of 2013/14. Their flooding excess has also been drastically reduced from £22,000 to a mere £250 - a drop of more than 98 per cent.

Times & Star

Sue Cashmore, chairman of the town's flood action group, has seen her insurance premium drop more than £3,000, as a result of the Government and insurance companies' recently launched Flood Re scheme.

Sue said: "It's brilliant, this is wonderful news for anyone living in a home like mine. We can get back to normal again."



Thank you

For more information please visit floodre.co.uk