Department
for Environment
Food & Rural Affairs

Consultation on amendments to the Flood Re scheme

Summary of responses

July 2021

We are the Department for Environment, Food and Rural Affairs. We're responsible for improving and protecting the environment, growing the green economy, sustaining thriving rural communities and supporting our world-class food, farming and fishing industries.

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Introduction

Background

In the July 2020 Flood and Coastal Erosion Risk Management Policy Statement the Government announced some specific changes to the Flood Re scheme that aim to help improve the efficiency and effectiveness of the scheme and support Flood Re's purpose to manage transition to a risk-reflective flood insurance market by 2039. These include technical changes to the scheme and changes which seek to encourage greater uptake of Property Flood Resilience among households at high risk of flooding across the UK. Defra issued a consultation on these changes on 1 February 2021. The consultation was open for 12 weeks and closed on 26 April 2021. It was open to anyone with an interest in the topic.

Consultation responses

A total of 118 responses were received. The consultation had 19 questions, with a mix of open-ended and closed-ended questions. All the close-ended questions had high response rates of at least 89%. Most of the closed-ended questions also allowed space for respondents to provide more detail or explanation of their answers. There were a further 7 open-ended questions.

The respondents included representatives of public, private, voluntary/community and academic organisations and institutions with different interests in the issues covered by the consultation. For the analysis of the responses, a set of stakeholder categories was developed and agreed with Defra. The categories are shown in Table 1.

Table 1 Number of respondents to the Flood Re Amendments consultation, by stakeholder category and code

Stakeholder category	Code for analysis	Number of respondents
Academia	AC	5
Citizen / community flood organisations	CFO	11
Engineering companies and consultants	ECC	4
Flood resilience companies: PFR suppliers, builders, installers	FRC	7
Insurance sector: insurance, re-insurance, brokers, underwriters, surveyors, loss adjusters	IC	24

Individuals[1]	IND	27
Local public sector: local authorities	LPS	19
Members of Parliament	MP	3
Non-governmental organisations; partnerships	NGO	5
National public sector: government departments, agencies and devolved administrations	NPS	1
Other private sector	OPS	3
Other	OTH	9
	TOTAL	**118**

104 of the responses were submitted using the Citizen Space[2] digital survey tool. 14 were submitted to Defra by email.

How the evidence is presented

For each closed-ended question, two bar charts are provided: one showing the distribution of all completed responses and the other showing the results by stakeholder sector.

For open-ended responses providing more detail about an associated closed-ended question, thematic analysis has been used to draw out themes and sub-themes, the extent to which the responses reflect similar or opposing views, how often themes are mentioned and whether themes or sub-themes are associated with a specific stakeholder group or groups. For open-ended responses providing more detail about an associated closed-ended question, thematic analysis has been used to draw out themes and sub-themes, the extent to which the responses reflect similar or opposing views, how often themes are mentioned and whether themes or sub-themes are associated with a specific stakeholder group or groups. Where relevant, broader comments that do not directly address the question are also noted.

For written questions not associated with closed-ended questions, a similar thematic analysis is used.

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[1] An analysis of responses reveals that the category of 'Individuals' encompasses a wide range of knowledge, expertise and perspectives. This category should not be seen as having a common identity or characteristics.

[2] Citizen Space is a digital platform, originally developed as a joint initiative with the UK government, as a vehicle to improve consultation. https://www.digitalmarketplace.service.gov.uk/g-cloud/services/555066843653674

Some responses to questions have not been coded. These are responses that did not answer the question, where respondents stated they did not have anything to add or that they had no experience in the area.

Discounted premiums for households with Property Flood Resilience (PFR)

This section of the consultation on whether Flood Re should offer discounted premiums for households with Property Flood Resilience (PFR) measures installed. Respondents were asked whether they agreed or disagreed with the proposal, what their views are on the extent it could incentivise uptake of PFR and what unintended consequences there could be as a result of this proposal. The consultation also invited views and suggestion on the best way that Flood Re could reduce insurance premiums. This section contains 5 questions.

There were 111 closed-ended (Q1), 110 closed-ended and 87 written (Q2), 108 closed-ended (Q3), 86 written (Q4) and 108 closed-ended and 35 written (Q5) responses across Q1 – Q5. The responses were from a wide range of stakeholders with most from individuals, insurance companies and local public sector.

The majority of respondents were very positive towards offering discounted premiums for householders who have installed PFR with 85% agreeing and a further 10% having a neutral position. The majority believed that this proposal will incentivise uptake of PFR in high-risk households to a great (32%) or moderate (26%) extent.

Respondents indicated cost saving, the high costs of PFR measures, the growth in awareness of PFR and incentivising householders to take action as the main reasons why this proposal would incentivise PFR uptake to a great or a moderate extent.

Overall, respondents were mostly optimistic (39%) or neutral (35%) about the idea that Flood Re offering discounted premiums for households with PFR would also incentivise insurers to offer discounted premiums. There were some differences between the views of stakeholders. Among those who disagreed, respondents from the insurance sector were the most represented group. However, most of the respondents from the insurance sector agreed (43%) that this proposal will incentivise insurers to offer discounted premiums. Among those who agreed, individuals were the most positive that this would incentivise insurers.

The suggested unintended consequences of offering discounted premiums to householders who have taken steps to install PFR can be grouped around issues on cost and affordability, effectiveness of PFR measures, impacts for homeowners, behavioural change, terms and conditions and fairness, and consequences for insurance industry.

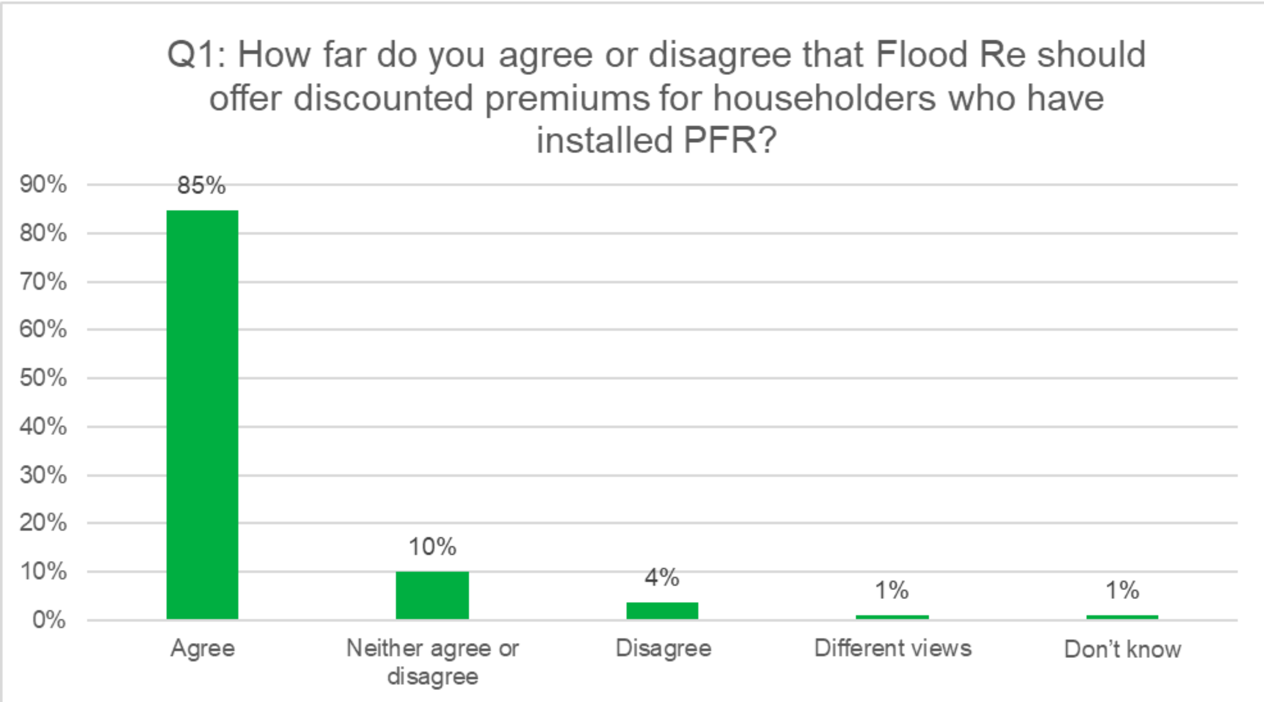
Most respondents (51%) indicated that applying reductions based on a rating of the effectiveness of the PFR installed would be the best way that Flood Re could reduce insurance premiums for those with PFR installed. There was also broad agreement among stakeholder groups on favouring this approach, except respondents from NGOs. Some additional mechanisms were suggested, focusing on having a more holistic approach and applying reductions based on:

- type of flooding and its regularity
- impact to reducing risk from measures implemented
- affordability
- quality of PFR measures installed

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

There were 111 relevant responses received for this question. Of these, 94 respondents agreed that Flood Re should offer discounted premiums for householders who have installed PFR (85% of all responses), 11 respondents neither agreed or disagreed (10%), and 4 respondents disagreed with this proposal (4%). In addition, one response included differing views (1%) and one respondent did not know (1%). There were 7 respondents that did not answer the question. The overview of responses received is presented in Figure 1.

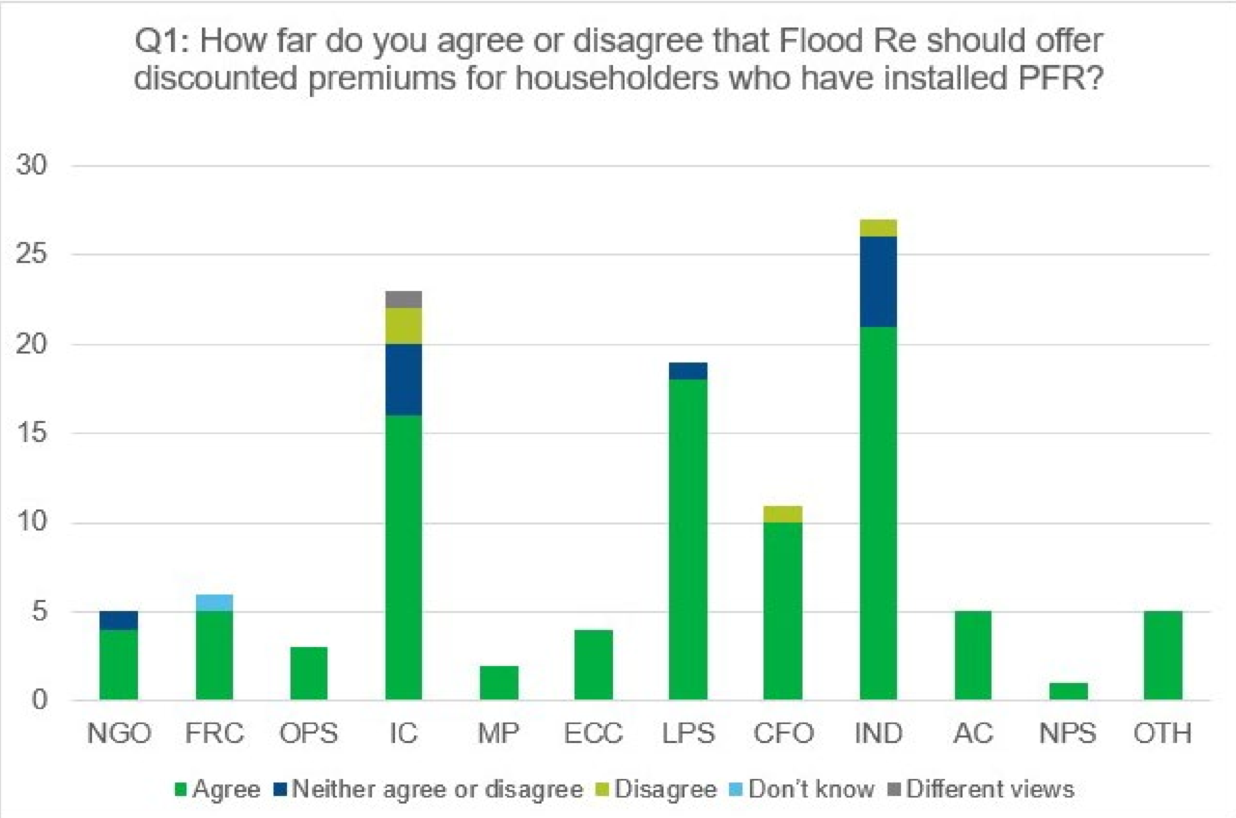
Figure 1: Total responses received to Q1 of the consultation



Of the 111 relevant responses received to this question, 27 were from individuals (IND), 23 from insurance companies (IC), 19 from local public sector (LPS), 11 from citizen/community flood organisations (CFO), 6 from flood resilience companies (FRC), 5 from other stakeholders (OTH), 5 from academic/research institutions (AC), 5 from non-governmental organisations and partnerships (NGOs), 4 from engineering companies and consultants (ECC), 3 from other private sector organisations (OPS), 2 from Members of Parliament (MP) and one from the category of public sector, including devolved Administrations (NPS).

A large majority of the respondents across stakeholder groups agree that Flood Re should offer discounted premiums for householders who have installed PFR as shown in Figure 2. The IND and IC categories included some respondents that neither agreed or disagreed with this proposal – 19% (5) and 17% (4) of respondents from these stakeholder groups, respectively. The same two groups also accounted for most responses that disagreed with this proposal – 4% (1) of respondents among IND and 9% (2) among IC.

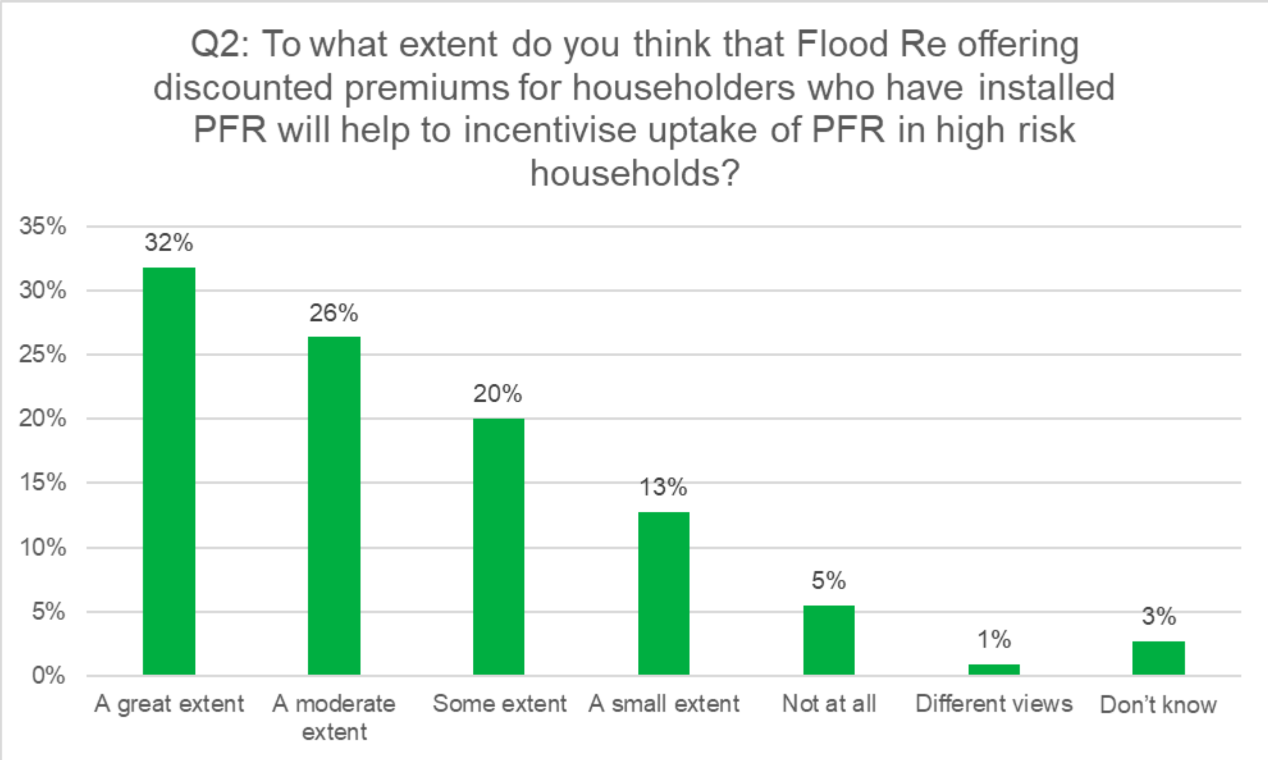
Figure 2: Number of responses received to Q1 of the consultation across stakeholder groups



Question 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 households?

There were 110 responses received for this question. Of these, 34 respondents thought that offering discounted premiums for householders who have installed PFR would help to incentivise uptake of PFR in high-risk households to a great extent (32% of all responses), 29 respondents thought it would help to a moderate extent (26%), 22 to some extent (20%) and 14 to a small extent (13%). 6 respondents thought that it would not help at all (5%), 3 respondents indicated that they did not know (3%), and one response included differing views (1%). 8 respondents did not answer the question. The overview of responses received for Question 2 is presented in Figure 3.

Figure 3: Total responses received to Q2 of the consultation

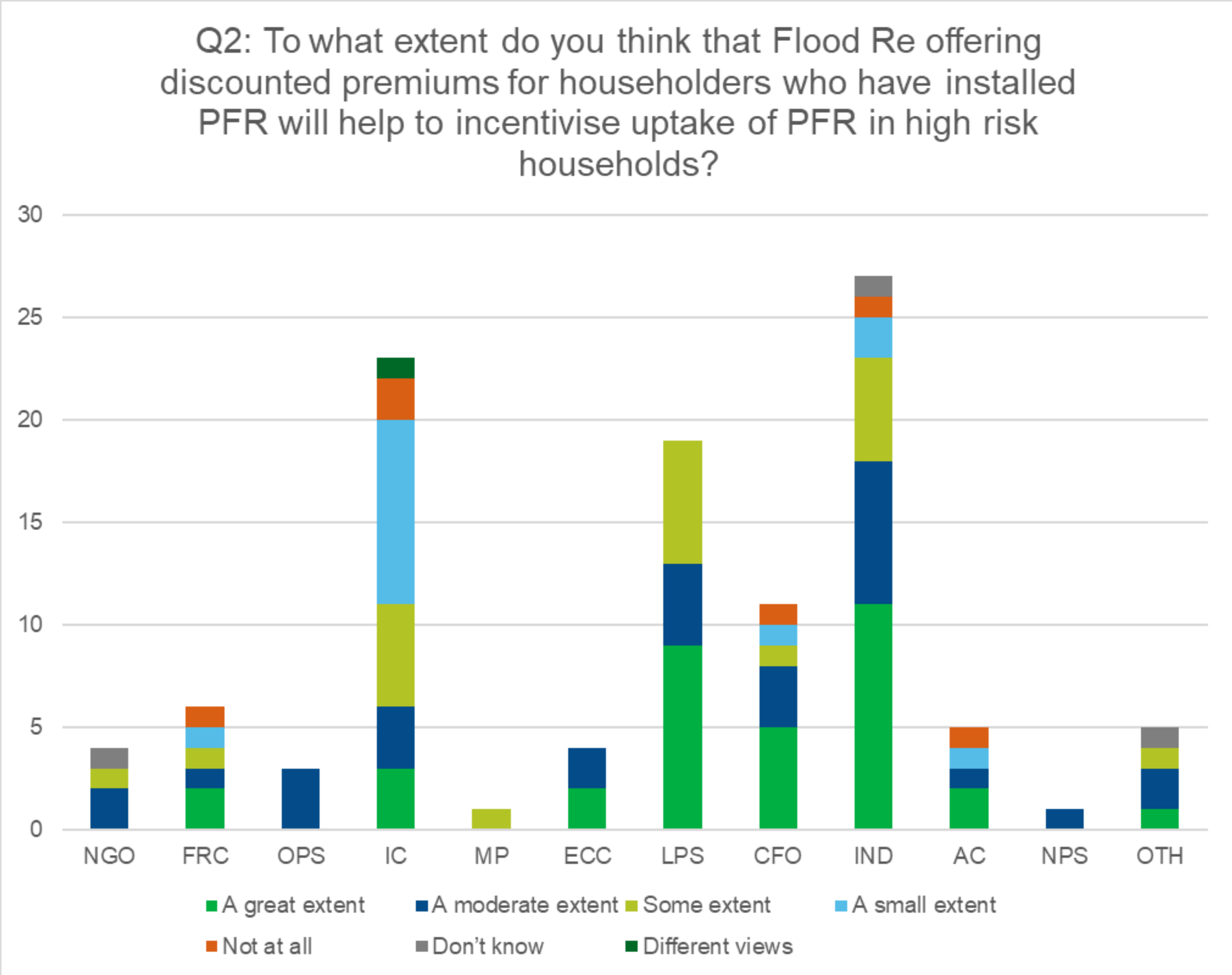


Of the 110 responses received to this question, 27 were from individuals (IND), 23 from insurance companies (IC), 19 from local public sector (LPS), 11 from citizen/community flood organisations (CFOs), 5 from other stakeholders (OTH), 6 from flood resilience companies (FRC), 5 from academic/research institutions (AC), 4 from non-governmental organisations and partnerships (NGOs), 4 from engineering companies and consultants (ECC), 3 from other private sector (OPS), one from Members of Parliament (MPs) and one from the category of public sector including Devolved Administrations (NPS).

There were mixed views across the stakeholder groups on the extent to which discounted premiums for householders who have installed PFR will help to incentivise uptake of PFR in high-risk households. Stakeholders representing ECC, LPS, CFO, IND, and AC were most likely to say that this would incentivise uptake to a great extent, although the number giving this response was less than half of the responses among each of the groups except ECC where 50% of respondents (n=2) held this view.

Respondents representing IC were the least positive on the impact of this proposal for uptake of PFR as 39% (n=9) of the responses indicated that this would be to a small extent and 9% (n=2) said it would not impact uptake at all.

Figure 4: Number of responses received to Q2 of the consultation across stakeholder groups



The following reasons were provided by respondents who indicated that offering discounted premiums will help incentivise uptake of PFR in high-risk households to a great extent:

- Financial motivation/cost savings (6)
- Householders will take action to help themselves (6)
- Drive changes in insurance industry on how these measures are recognised (2)
- Remove fear to alert insurers of having PFR (1)
- No other alternatives to Flood Re (1)
- Mutual benefits (householders and insurers) (1)
- Community network effect – those who have installed PFR will incentivise neighbours (1)

The main reasons provided by respondents who indicated that this proposal would incentivise PFR uptake to a moderate extent include:

- Financial motivation/cost savings (7)
- High costs/affordability of PFR (5)
- Communication by insurance companies and awareness created (3)
- Personal choice/reasons (for some this will be an incentive for others will not) (2)
- Difficulty to get people to act due to their lack of urgency (1)

- Expenditure outweighing benefits from discounts (1)
- Possibility of saving property (1)
- Lack of impact from incentives (1)
- Planning restrictions (1)
- New homes not being able to participate (1)

The main reasons provided by respondents who indicated that this proposal would incentivise PFR uptake to some extent include:

- Expenditure outweighing benefits from discounts (6)
- Cost (2)
- Difficulty of getting people to act due to their lack of urgency (1)
- Uptake will depend on personal context of the householder (2)
- Will take time to achieve uptake (1)
- There are a number of barriers for uptake of PFR (1)
- No other alternatives to PFR (1)
- Other (e.g. stimulus to do additional risk reduction will have to come outside of Flood Re, uptake has already been quite high) (4)

The main reasons provided by respondents who indicated that this proposal would incentivise PFR uptake to a small extent include:

- Expenditure outweighing benefits from discounts (8)
- Not clear this proposal will motivate householders to fund works at their own expense (unless they see tangible benefits) (2)
- Discount being too small (2)
- Difficulty to get people to act due to their lack of urgency (1)

The responses who indicated that this proposal would not incentivise PFR uptake all provided the following main reasons:

- High costs of installing PFR/affordability issues (3)
- Small net savings (2)
- Difficulty to get people to act due to their lack of urgency (1)

Various respondents (17) suggested ways of helping to incentivise uptake of PFR through discounted premiums, including:

- Clear definitions of what PFR means and what happens if the PFR fitted is ineffective
- For insurance claims to include preventive resilience measures
- Visibility and public awareness - 'Flood Re' and/or 'PFR measures' need to be searchable criteria on price comparison websites
- Cost of PFR would need to be low enough for the household to see a return on investment within a short time frame
- Need guidance – what measures/ where to get advice from / who can install measures
- Communication of successes and impact of PFR

- Offering some form of guarantee and indication of how much the premiums for householders could be reduced
- Combine discounted premiums with other incentives (e.g. funds provided by the insurer to Build Back Better and wider availability of Government grants)
- Important not to overstate the impact of any Flood Re discount.

Numerous responses (21) also noted to the existing barriers for the uptake of PFR, including:

- Initial cost of installing PFR measures/affordability (especially for low-income households)
- PFR measures are not recognised by insurance companies
- For PFR measures to work community cohesion is required – individual homes can only do so much
- Difficult to explain Flood Re and how it can benefit a householder after experiencing a flooding event
- Perception/stigma – fear that PFR would identify the property as being at risk and increase premiums/negatively impact property value in the market
- Psychological - PFR would remind homeowners of previous flooding
- Limited knowledge of the impacts of different PFR measures
- Households at the highest risk do not perceive PFR to be relevant to mitigating their risk
- Perception that someone else should be responsible for addressing flood risk.

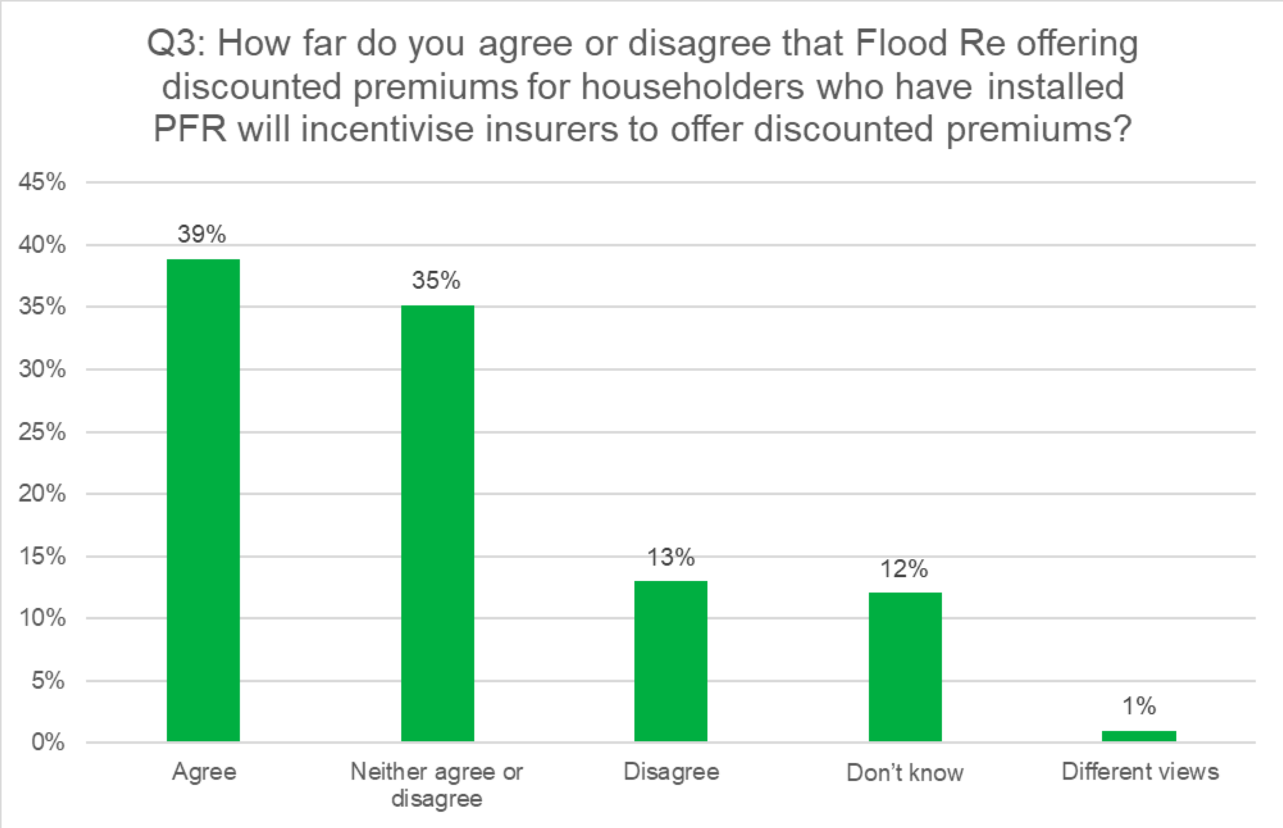
A few responses highlighted some uncertainties of using this approach, including:

- "Hard to comment without knowing what the discount would look like off the rate"
- "It would be much better to supply a survey by a flood expert and pay upfront cost amount to defences than lower premiums"
- "Not all insurers may want to participate with all of their customers"
- "The lack of evidence on which measures make a difference and which are cost-effective is concerning".

Question 3. 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?

There were 108 responses received for this question. Of these, 42 respondents agreed that Flood Re offering discounted premiums for householders who have installed PFR would incentivise insurers to offer discounted premiums (39% of all responses), 38 respondents neither agreed or disagreed (35%) and 14 respondents disagreed with this proposal (13%). In addition, one response included differing views (1%) and 13 respondents did not know (12%). 10 respondents did not answer the question. The overview of responses received is presented in Figure 5.

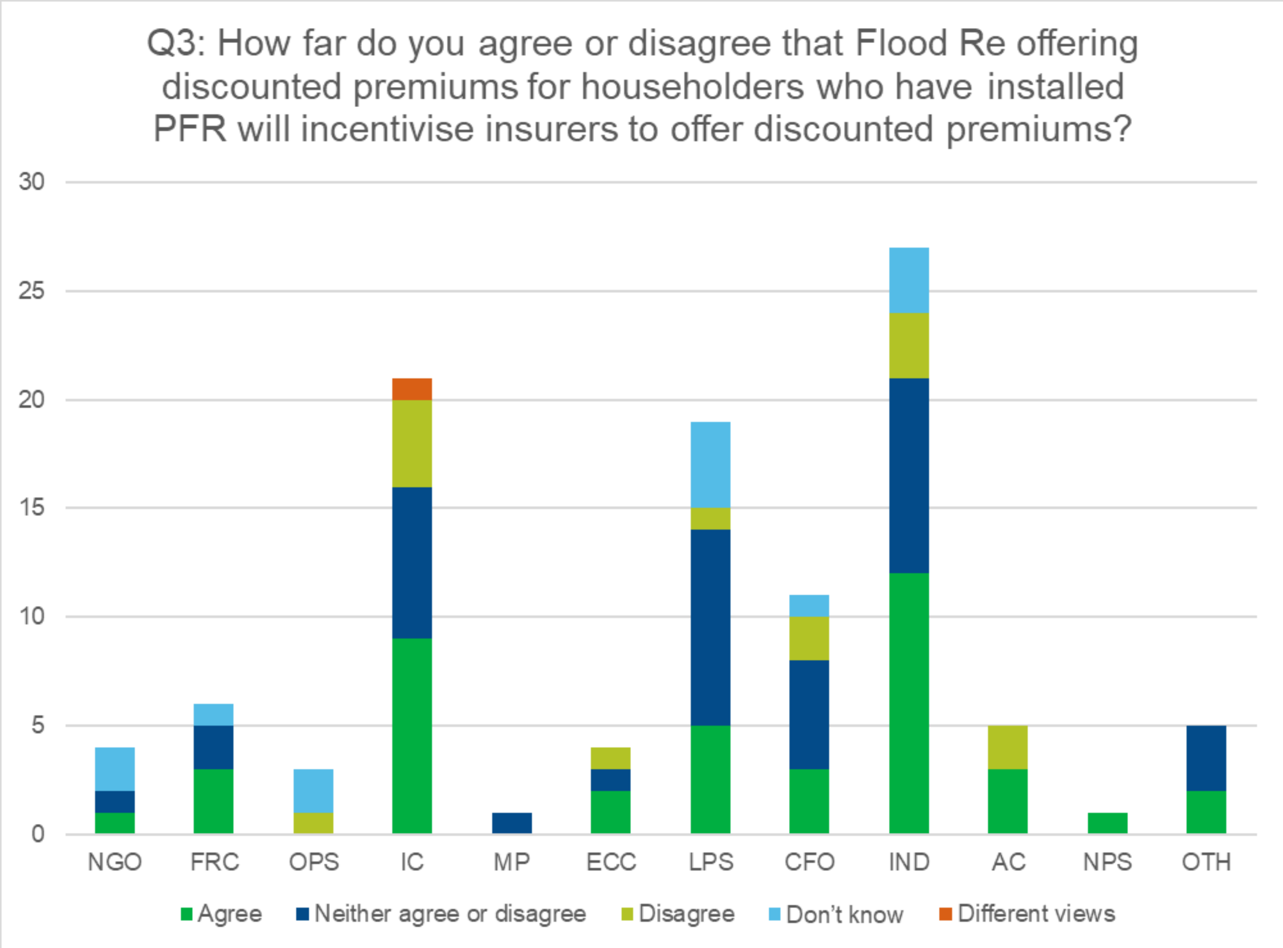
Figure 5. Total responses received to Q3 of the consultation.



Of the 108 responses received, 27 were from individuals (IND), 21 from insurance companies (IC), 19 from local public sector (LPS), 11 from citizen/community flood organisations (CFOs), 6 from flood resilience companies (FRC), 5 from other stakeholders (OTH), 5 from academic/research institutions (AC), 4 from non-governmental organisations and partnerships (NGOs), 4 from engineering companies and consultants (ECC), 3 from other private sector (OPS), one from Members of Parliament (MPs) and one from the public sector including Devolved Administrations (NPS).

As in the responses to Q2, there were differences between how different groups of stakeholders responded to this question (see Figure 6). For the 13% of respondents who disagreed that this proposal would incentivise insurers to offer discounted premiums, 29% (n=4) were from the insurance industry (IC), 21% (n=3) were individuals and 14% (n=2) were from citizens' /community flood organisations. Importantly, stakeholders from the same group often highlighted a mix of both potential positive and negative views in their responses providing a more complex picture. For example, among insurance industry respondents, 43% (n=9) agreed that this proposal would incentivise insurers to offer discounted premiums, 33% (n=7) neither agreed or disagreed, 19% (n=4) disagreed and 5% (n=1) did not have a unified position. In addition, the mixed and positive responses represented a much wider range of stakeholders.

Figure 6. Number of responses received to Q3 of the consultation across stakeholder groups.



Question 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?

There were 97 responses received for this question. Of these, 86 were relevant to the question and coded. From the coded responses, 19 respondents indicated that they did not foresee any unintended consequences from offering discounted premiums to householders who have taken steps to install PFR.

Of the 86 responses coded, 22 were from individuals (IND), 20 from insurance companies (IC), 12 from local public sector (LPS), 9 from citizens' /community flood organisations (CFOs), 5 from flood resilience companies (FRC), 5 from academic/research institutions (AC), 2 from non-governmental organisations and partnerships (NGOs), 4 from engineering companies and consultants (ECC), 2 from other stakeholders (OTH), 2 from other private sector (OPS), 2 from Members of Parliament (MPs) and one from the public sector, including Devolved Administrations (NPS).

The majority of unintended consequences identified were negative, although some positive consequences were identified. The potential consequences that are outlined in the responses can be categorised in the following groups:

Cost and affordability

- Growing inequality in the affordability/benefitting of/from PFR (2-tier system)
- Inflation for premiums
- Added cost for homeowners
- Added costs for tenants
- Rising prices of PFR measures as market is unable to respond to rise in PFR demand
- Homeowner disappointment with the extent of financial gains (costs vs savings).

Effectiveness of PFR measures

- Risk of ineffective PFR installation
- Lack of PFR maintenance if no agreement in place
- Need for community cohesion for PFR measures to be effective: taking individual rather than a community approach encourages sub-optimal measures.

Impacts for homeowners

- Thriving PFR market
- Negative impact on property market value because measures are a physical reminder of risk thus blighting property
- Places responsibility on homeowners
- Highlight flooding histories for properties
- More bureaucracy when changing ownership of properties
- Additional burden on customers to validate that the PFR remains in place and that no modifications have been made to the property that would negate the benefit of the installation.

Behavioural change

- People discouraged to take more appropriate actions false sense of security (staying put when advised to evacuate and assuming property won't flood so therefore not taking appropriate recoverability measures)
- Overconfidence/reliance on PFR
- Driving consumer action in other areas,
- Increased development in high-risk areas.

Terms and conditions/fairness

- Complex terms and conditions for obtaining insurance
- Consumer confusion/dissatisfaction re terms and conditions,
- Issue of fairness regarding the adjustment of other funding streams to compensate for discounts under Flood Re.

Consequences for insurance industry

- Improve trust in the industry for PFR measures
- Improve understanding of how to calculate the reductions in risk and premiums
- Companies set large excesses to counteract the reduced premiums

- Additional burden on insurance companies to request/administrate evidence that the PFR products installed are fit for purpose and are regularly maintained, as well as adhering to current/future standards
- Insurance companies setting unrealistic pricing levels which will change once Flood Re ceases to exist
- Potential for recipients of discounted premiums to switch insurers
- Consumers may ask for a breakdown of the flood cost within the policy premium to make comparisons between products
- There could be some delay before insurers can pass discounted premiums onto policy holders as currently, they do not have information which properties do, and which do not have resilience measures installed.

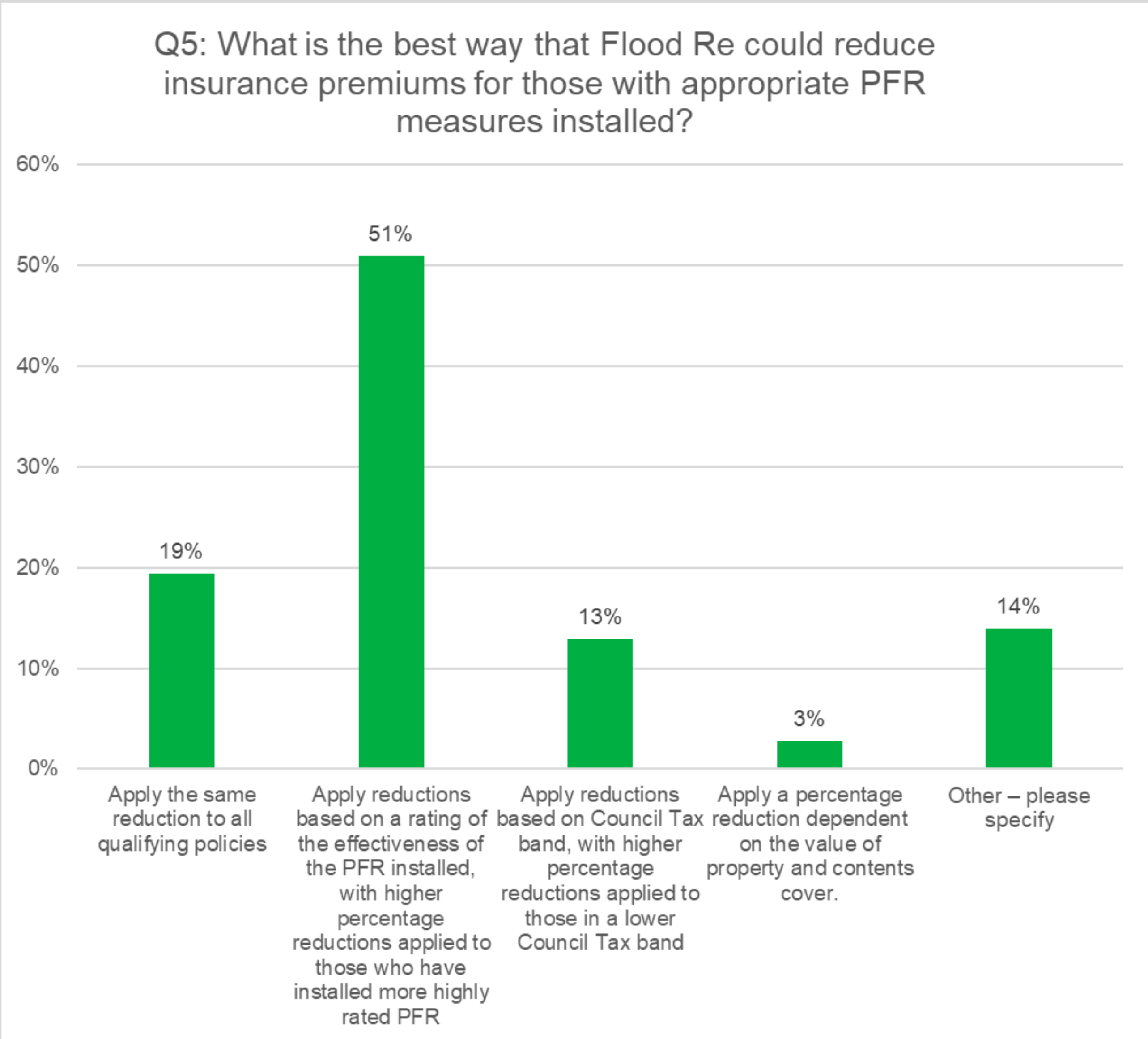
Various respondents raised further questions that should be considered when offering discounted premiums, including:

- Who will be installing the PFR, and what are their credentials to do so?
- Will the onus be on Flood Re to certify that there are PFR measures in place? How this would be done and how can insurers have confidence that this information is accurate?
- What standards or requirements would be necessary for a property to qualify for any discounted premium and how that would operate in practice? Will the homeowner be expected to provide yearly servicing documentation to let insurers know that the PFR is still operational/would work when required? Would a receipt from a retailer be sufficient or will an accredited survey and installation certificate and ongoing proof of maintenance be needed? Who will be responsible for paying for this assessment?
- How will the effectiveness of any PFR be assessed?
- How would a discount system identify effectiveness of PFR to properties for whom PFR is unsuitable or too expensive?
- How would resistance or resilience measures be graded – would the industry favour one over the other?
- What happens when people cannot afford to implement PFR in their homes?
- How much PFR is needed to meet the criteria – will this lead to people doing the bare minimum and not being better protected?
- If PFR measures require deployment then current and future residents need to understand how to do this and continue to maintain the measures - what happens with this in the rental market?
- What level of discounts would be most effective, and which households will be eligible?
- If PFR fails, or if measures are not deployed - will insurance companies take this as an opportunity to invalidate the insurance?

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

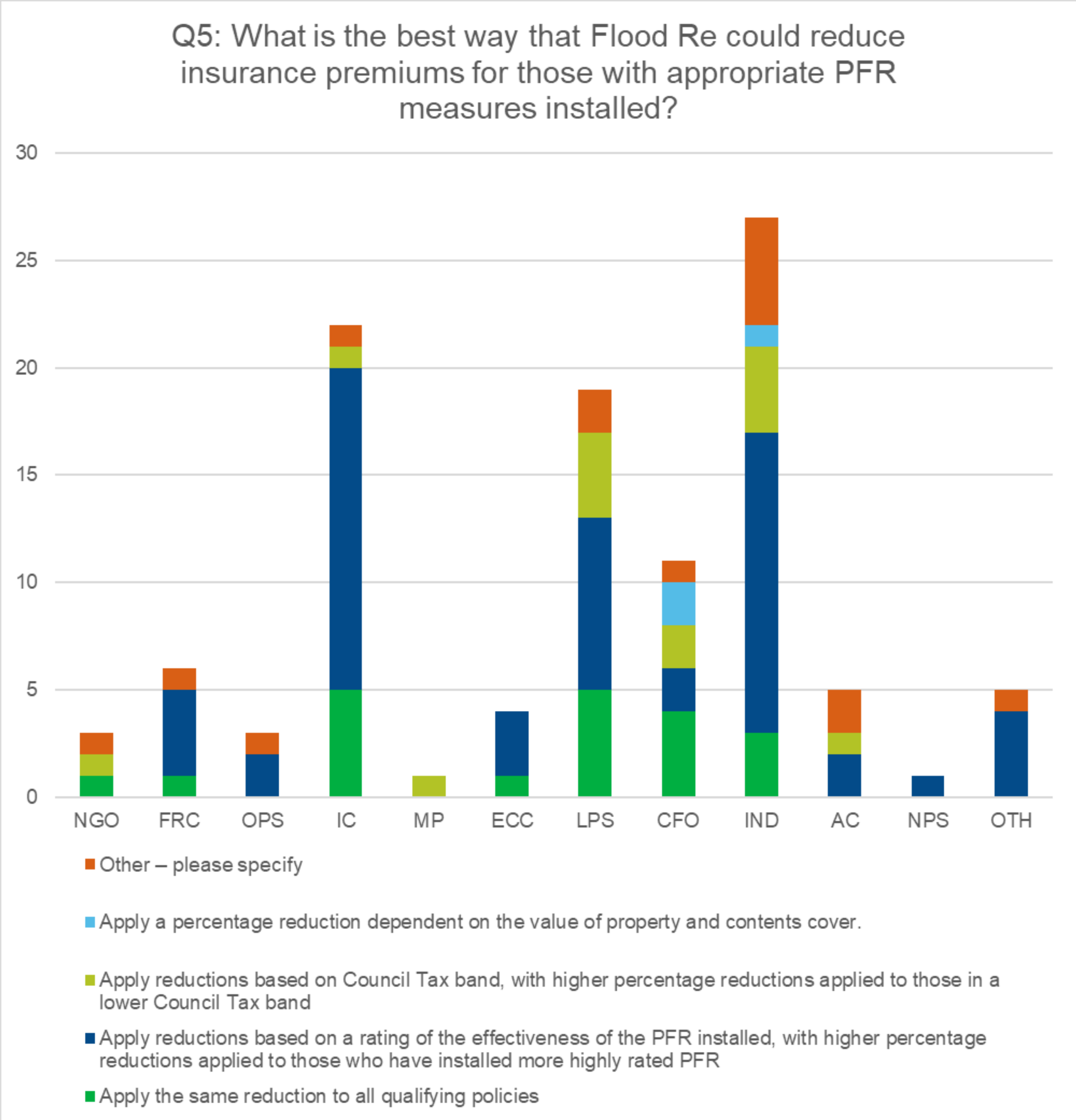
There were 108 responses received for this question. Of these, 20 respondents (19% of all responses) said that the best way that Flood Re could reduce insurance premiums would be by applying the same reduction to all qualifying policies; 55 respondents (51%) thought that it could be best done by applying 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; 14 respondents (13%) believed that it could be best done by applying reductions based on Council Tax band, with higher percentage reductions applied to those in a lower Council Tax band; and 3 respondents (3%) thought that it could be best done by applying a percentage reduction dependent on the value of property and contents cover (see Figure 7). Of the responses received, 15 respondents (14%) indicated that there should be other mechanisms applied to reduce insurance premiums for those with appropriate PFR measures installed.

Figure 7. Total responses received to Q5 of the consultation.



Respondents from the engineering companies/consultants and insurance companies stakeholder groups and individuals were more likely to indicate that the best way that Flood Re could reduce insurance premiums would be by applying reductions based on a rating of the effectiveness of the PFR installed, with 75% (n=3), 68% (n=15), and 52% (n=14) responses respectively. Additionally, respondents from citizen/community flood organisations were more likely to indicate that their preferred option would be to apply the same reduction to all qualifying policies with 36% (n=4) of responses in this category.

Figure 8. Number of responses received to Q5 of the consultation across stakeholder groups.



The respondents (15) who indicated that there should be other mechanisms applied to reduce insurance premiums for those with appropriate PFR measures installed suggested the following:

- Applying reductions based on type of flooding and its regularity
- Applying a more holistic approach by combining the different approaches as suggested in this consultation
- Making detailed surveys on an individual property basis of the impact on reducing risk from the measures implemented, and reflecting this in the reduction of insurance premiums
- Establishing a minimum level of PFR to qualify
- Lower premiums for households that have industry leading and inspected/approved/verified PFR measures in place, irrespective of their flooding history
- Applying reductions based on affordability.

One respondent commented that it is not possible to reduce premiums in existing circumstances as insurance companies focus on profit and the only way in which they would reduce the premiums for vulnerable communities is for the Government to take a percentage from all those who are insured, to pay for flooding.

Another respondent disagreed with all the provided options indicating that none of them would be fair to all. The respondent commented that Flood Re appears to be focused on the financial impact without considering the human impact. It was highlighted that treating all properties equally across a water course would be unfair considering the differences in property values and demographics.

Build Back Better

The questions in this section look at the proposal that Flood Re should 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. Respondents were asked whether and to what extent they agreed or disagreed with the proposal, what the impacts of offering this level of betterment might be and whether it would be effective in encouraging householders to consider fitting PFR measures. Respondents were asked to give their views on whether insurers should be able to choose whether to offer Build Back Better as funded by Flood Re. Looking to the future, the consultation invited views on whether the proposal for Flood Re to fund Build Back Better would encourage the insurance market to make Build Back Better a standard offer in policies before the end of Flood Re in 2039. The section has 6 questions.

There were 111 closed-ended (Q6), 81 relevant written (Q6), 91 relevant written (Q7), 106 closed-ended (Q8), 62 relevant written (Q8), 106 closed-ended (Q9), 85 relevant written (Q9), 108 closed-ended (Q10) and a further 61 relevant written (Q10) responses about the proposal that Flood Re should 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. The responses were from a wide range of stakeholders with most from individuals, insurance industry and local public sector.

An overwhelming majority of the respondents (87%) across stakeholder groups agreed that Flood Re should offer Build Back Better to policies ceded to the Scheme, with only 4% disagreeing with this proposal.

The main reasons indicated for agreement with the proposal were that it will reduce future costs for homeowners, insurance sector and risk management authorities (28%), that it will improve flood resilience (20%), or that it will reduce flood risk and better protect properties (17%). Respondents generally felt that the change would have positive impacts on homeowners and communities. Most respondents who mentioned impacts on the insurance sector felt that these would be significant but differed in their opinions as to whether they would be more or less positive. Positive impacts were mentioned by a range of stakeholders including the insurance sector.

The small number of respondents who were opposed to the proposal mentioned concerns over fairness (homeowners who are not at flood risk subsidising homeowners at flood risk) and over the risk that the change would increase costs for insurers.

Looking at the potential impacts of the proposed change on different sectors, most of the possible impacts on householders and the wider community were felt to be positive. Of the respondents who mentioned impacts on the insurance sector, most felt that these would be significant but differed in their opinions as to whether they would be more or less positive. Positive impacts were mentioned by a range of stakeholders including the insurance sector.

When asked about the likely effectiveness of Build Back better in encouraging householders to consider PFR, the majority of respondents (71%) considered the proposal in the consultation to be effective while 5% thought it would not be effective. The main reasons for thinking the proposal would be effective were:

- being attractive to householders seeking to avoid being flooded again (12 response)
- enabling action to install improved measures (11 responses)

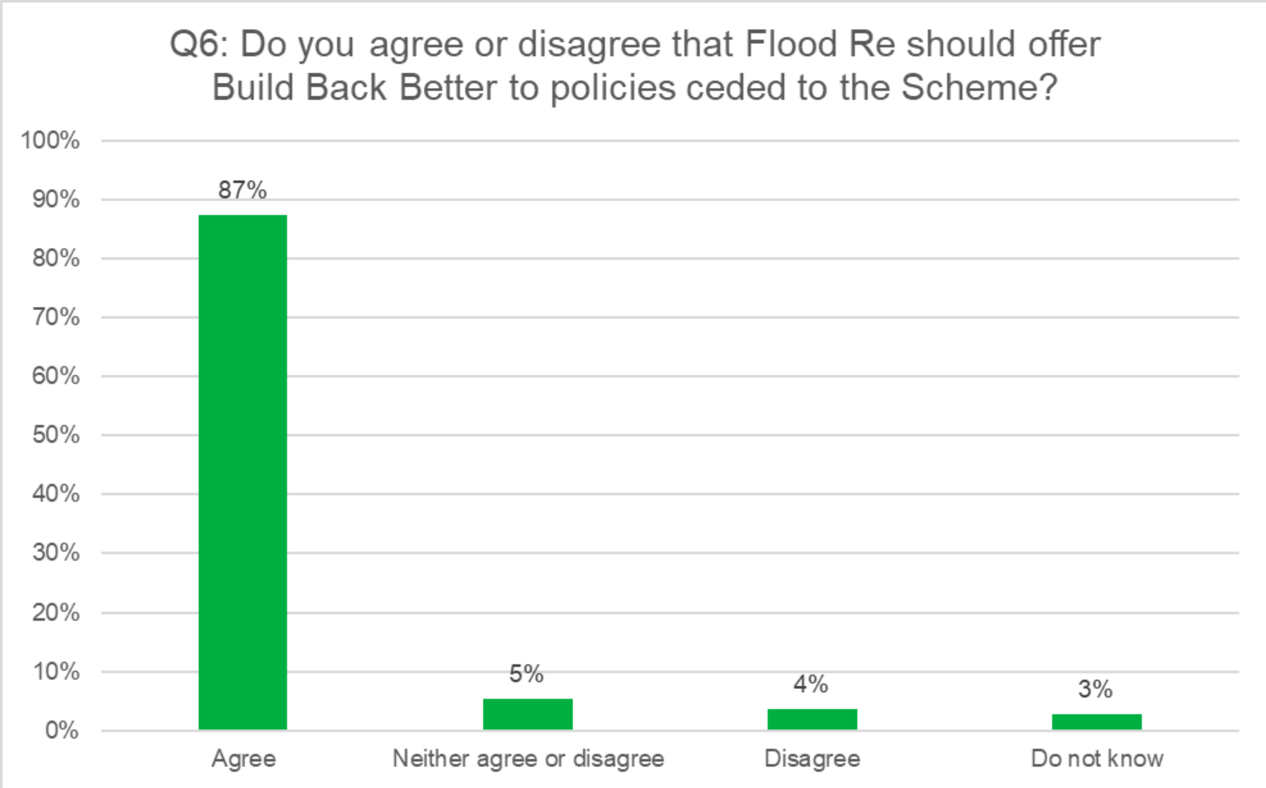
Q9 of the consultation asked for views on whether insurers should be able to choose whether or not to offer Build Back Better as funded by Flood Re. Over half of respondents (53%) disagreed with the suggestion., a. quarter (25%) agreed with this proposition, 22% were uncertain.

Q10 asked ‘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?’ More than half of respondents (54%) agreed that the proposal would encourage the insurance market to make Build Back Better a standard offer in policies ahead of 2039. 10% of respondents disagreed, 35% were unsure.

Question 6. Do you agree or disagree that Flood Re should offer Build Back Better to policies ceded to the Scheme? Please give reasons to support your answer.

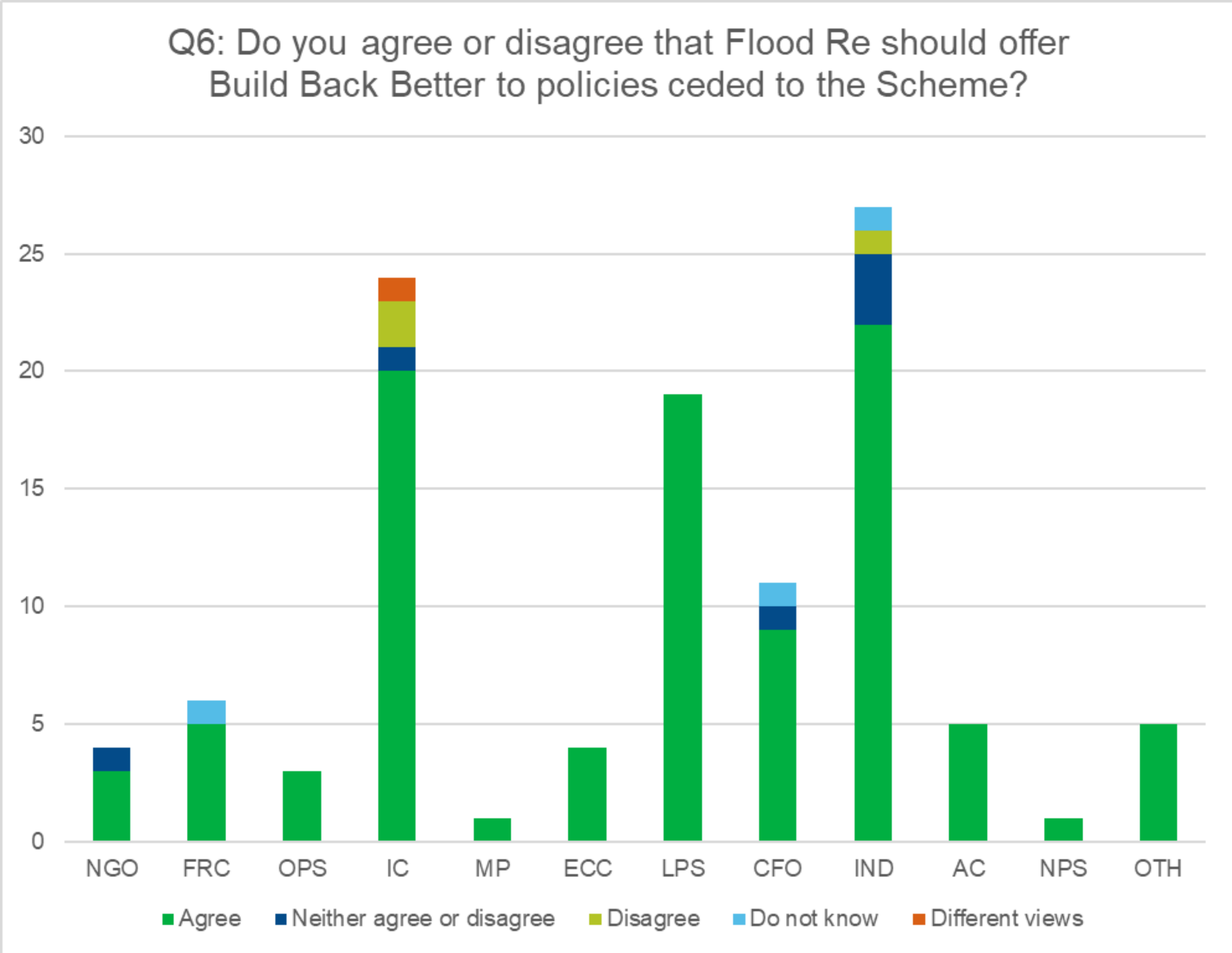
This question was answered by 111 respondents. Of those, a large majority (87 respondents) agreed that Flood Re should offer Build Back Better to policies ceded to the Scheme (87% of all responses), 6 respondents neither agreed or disagreed (5%), 4 disagreed (4%) and 3 respondents did not know (3%). The overview of responses to Question 6 is presented in Figure 9.

Figure 9. Total responses to Q6 of the consultation.



A large majority of the respondents across stakeholder groups agree that Flood Re should offer Build Back Better to policies ceded to the Scheme (see Figure 10).

Figure 10. Number of responses received to Q6 of the consultation across stakeholder groups.



81 respondents provided relevant written responses. 28% (n=23) indicated that they agree that Flood Re should offer Build Back Better to policies ceded to the Scheme because it will reduce future costs for homeowners, insurance sector and risk management authorities. Another 20% of all responses (n=16) noted that Building Back Better will improve flood resilience, whereas 17% (n=14) believe that it will reduce flood risk and better protect properties, and thus should be offered by Flood Re.

Multiple respondents (9) highlighted the issue that many insurers replace 'like for like' as they do not offer Build Back Better option. Disagreement with the 'like for like' approach was emphasised by a further 7 respondents (9% of all responses) who stressed the irrational nature of this approach with money being spent only for people being exposed to the same level of risk and the possibility of further destruction.

Other reasons for agreeing that Flood Re should offer Build Back Better to policies ceded to the Scheme included:

- Improving flood claim process (e.g. reduced time for settling claims) and in the long-term reduce the need for insurance claims (7)
- Ensuring effective resource use (by stopping repeatedly replacing 'like for like') (6)
- Ensuring mental health benefits (e.g. reduced anxiety; greater feeling of control) (5)
- Common sense to Build Back Better (4)
- Reducing length of time that occupiers have to vacate flooded properties (4)

- Retaining/adding to property value (2)
- Enabling homeowners to afford a range of PFR measures (2)
- Any approach that can fund repair to a better standard is better than having a like for like approach (2)
- Encouraging homeowners to take ownership and have agency again (2)
- Changing the perception of homeowners that they do not have any responsibility to take action on flooding and that it will not happen again in their lifetime (1)
- Building awareness among homeowners of the need to be more resilient to flooding (1)
- Benefits from Build Back Better outweighing costs (1)
- Reducing financial draw on Flood Re Scheme in the long term (1)
- Supporting local businesses as local qualified installers could get the installation work (1)
- Long-term benefits from avoided damage and avoided repair work (1)
- Encouraging the wider insurance market to consider offering betterment repairs (1)
- It is essential for moving to a risk-based insurance market in 2039 (1)

Among those who disagreed that Flood Re should offer Build Back Better to policies ceded to the Scheme the main arguments included:

- It would add costs to the insurers (3)
- Concerns that it would further exacerbate the inherent cross-subsidisation (1)
- It should be made available to all customers irrespective of whether they have been ceded to Flood Re or not (1)
- Concerns over fairness (homeowners who are not at flood risk subsidising homeowners at flood risk). The onus should be on the owner to improve their resilience - not the insurer (2)
- It is outside the remit of Flood Re model (1)

One neutral respondent expressed concern that BBB would increase the cost of the whole scheme whilst only benefiting properties that are likely to flood again within a time frame related to risk.

Several respondents from the insurance sector also indicated some conditions which, if met, could increase their support for this proposal:

- A firm evidence base, supported by case studies that would increase confidence in the effectiveness of PFR
- Ensuring that the PFR methods applied are right, both in terms of their resilience and longevity: different types of PFR measures must be explored in more detail, along with the surveying and installation practices
- A mechanism to assess that PFR measures are appropriately installed.

Q7: What are the potential impacts of Flood Re offering Build Back Better? In your response, please state who is affected by each impact.

91 relevant responses were received for this question. Of these, 22 were from individuals (IND) and 22 from insurance companies (IC): together these two stakeholder types accounted for almost half of all responses. The remaining responses were from local public sector (LPS=16), citizen/community flood organisations (CFO=8), flood resilience companies (FRC=5), academic/research institutions (AC=5), non-governmental organisations and partnerships (NGO=4), engineering companies and consultants (ECC=4), other stakeholders (OTH=2), other private sector (OPS=3), Members of Parliament (MP=3), and the public sector, including Devolved Administrations (NPS=1).

This question provides additional insight into respondents' perception of the nature of the potential impacts of Flood Re offering Build Back Better, extending the reasons for agreeing or disagreeing with the proposal given in response to Q6. The impacts or consequences identified were both positive (e.g. that over time it would reduce costs for all) and negative (e.g. that non-Flood Re customers would have to pay higher premiums to support the increased payments). Respondents sometimes described the conditions under which the positive or negative impacts would be produced, providing a more complex picture of how this change might operate in practice.

The main impacts mentioned are detailed below, by the groups or sectors affected.

Impacts for householders

Most of the impacts for householders were felt to be positive:

- better protection against flooding and reduction of damages (20)
- more householders taking up the offer of PFR and benefiting from reduced recovery times (12)
- reduction in insurance claims was mentioned as a benefit to both householders and the insurance sector (12)
- increased assurance/reduced trauma and stress for those at flood risk were seen by respondents from a range of sectors as an important benefit of the proposed Build Back Better approach making the improvement of PFR a normal part of the flood claims process (NGO)
- improving awareness of PFR leading to greater understanding of its value and uptake by householders: householders were expected to become more willing to accept the installation of PFR measures as part of the reinstatement of their homes (5)
- greater uptake by homeowners with lower levels of flood risk.

Some of those who detailed benefits for homeowners cautioned that they might still face difficulties in managing the process and the requirements of the different organisations involved: insurers, installers, grant-making bodies etc. One respondent (AC) suggested that making pay-outs retrospectively would be helpful for householders in dealing with these pressures. Several responses (ECC, IC) noted that the £10k payment might not be enough to cover Build Back Better costs, leaving the householder to find the difference.

Some potential risks for householders were also mentioned:

- unscrupulous providers installing rogue or inappropriate PFR (7): to address this risk, one respondent suggested that insurance companies should assess works before payment is made by Flood Re
- low uptake of the grant offer (5): one respondent from the insurance sector referred to the risk of the grant becoming 'an optional coverage never used'
- householders would be less likely to invest their own money in paying for PFR measures preferring to wait till they were flooded and could make a claim (2)
- higher premiums for non-Flood Re customers, to pay for the increased average cost of claims (2)
- Build Back Better repairs might slow down the reinstatement process (1- IC).

Impacts for the wider community

Some respondents highlighted the potential positive impacts of the measure on wider communities in terms of:

- increased community resilience
- social and economic benefits, e.g. of fewer working days lost (2)
- climate change adaptation and less waste of building materials leading to reduced carbon emissions: reduction in waste was mentioned by stakeholders in the insurance industry and in academia.

Impacts for the insurance sector

Most respondents who mentioned impacts on the insurance sector felt that these would be significant but differed in their opinions as to whether they would be more or less positive. Positive impacts were mentioned by a range of stakeholders including the insurance sector.

The potential positive impact for insurers mentioned most frequently by those outside the insurance sector (9) was the reduced cost of repeated claims and improved ability to manage risk. Both insurance sector and other stakeholders (3) mentioned the potential positive impact on customer satisfaction of insurance companies being able to provide an improved service. One insurance company thought Build Back Better would improve insurance companies' engagement with PFR.

Negative impacts on the insurance sector were largely mentioned by stakeholders in this sector:

- risks to insurance companies of having to install products whose effectiveness has not been proven (IC)
- potential misalignments between the level of risk and the investment provided through Build Back Better, for example, if small financial losses by householders

were to lead to payments at or near the Build Back Better maximum, with a negative impact on the profitability of insurers and reinsurers (IC)
- risk that in a voluntary scheme, insurance companies offering Build Back Better could be undercut by companies not in the Scheme and therefore able to offer lower premiums (IC). This concern was not shared by all in the insurance sector, with another respondent commenting that the proposed market wide initiative would mean that companies with good policies could compete well
- requirements for changes to insurance company processes, such as updating policy wordings and claims processes and administrative costs of managing Build Back Better at policyholder level (IC)
- complications arising from insurance company having to make decisions about which properties are eligible (IC).

Impacts for companies providing PFR products or services

12 respondents commented on the potential impacts of Build Back Better on the market for PFR products or services. The comments were all positive, with respondents considering that Build Back Better could stimulate this market, encourage new entrants and innovation and help to guarantee a market over the longer term.

Impacts for government policy

A few respondents commented that Flood Re offering Build Back Better would support government policy by contributing to speed up the improvement of UK property flood protection (IC).

For Flood Re, the proposal's impact on increasing property-level resilience is dependent on validating that Build Back Better repairs have been incorporated, the costs evidenced, and the impact continuously monitored. Some respondents from the insurance sector notes that there will be a need for a longer-term assessment of the protection, including a consideration of the lifespan of these products or their parts (IC). Other insurance sector stakeholders focused on the longer-term impact of Build Back Better in smoothing the intended return to risk reflective pricing of insurance cover at the end of the Flood Re scheme (IC).

Q8: 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?

This question was answered by 106 respondents. Figure 11 shows that the majority of respondents considered the proposal in the consultation to be effective: 71% of respondents thought that the proposal for offering betterment would be effective in encouraging householders to consider fitting PFR, 9% felt it would be neither effective nor ineffective and 5% thought it would not be effective.

Figure 11. Total responses to Q8 of the consultation.

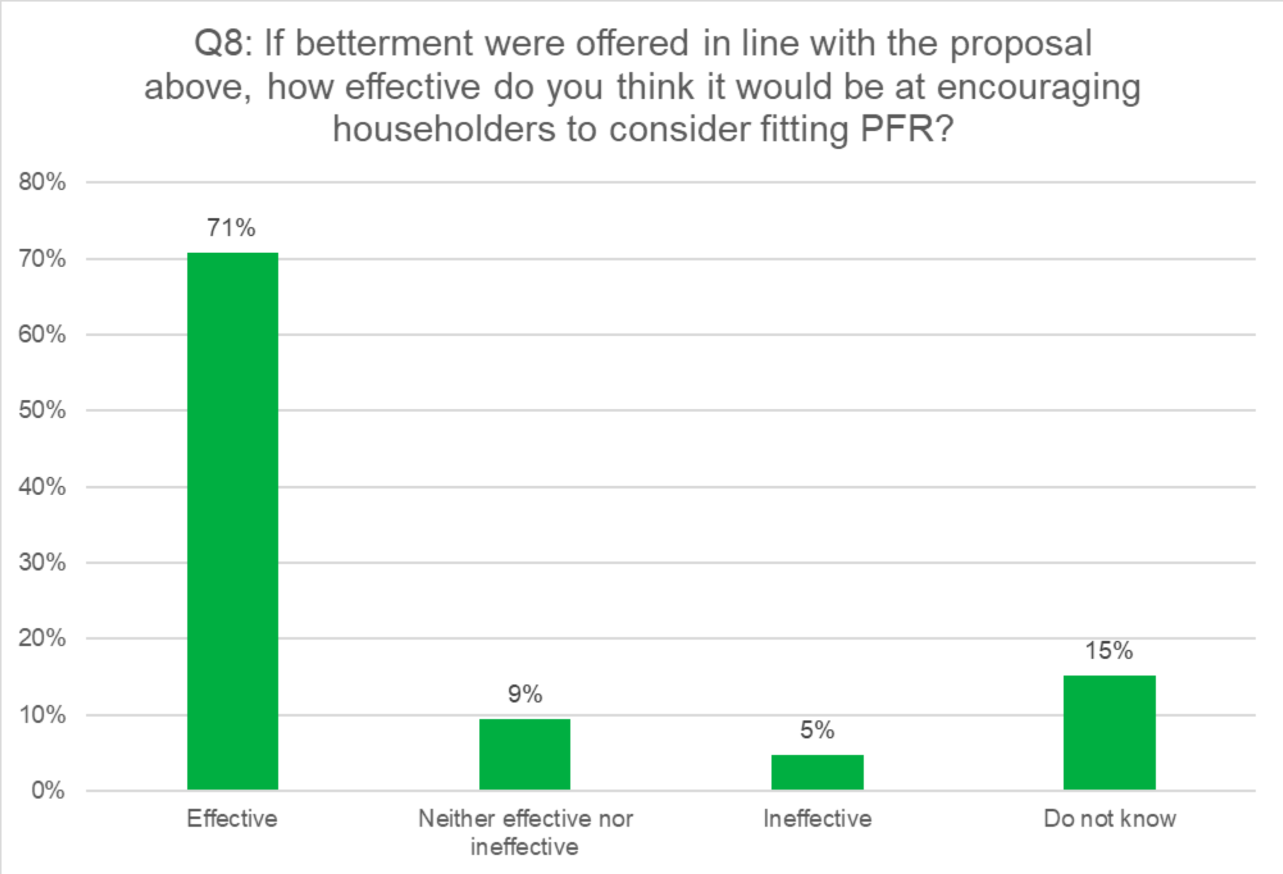


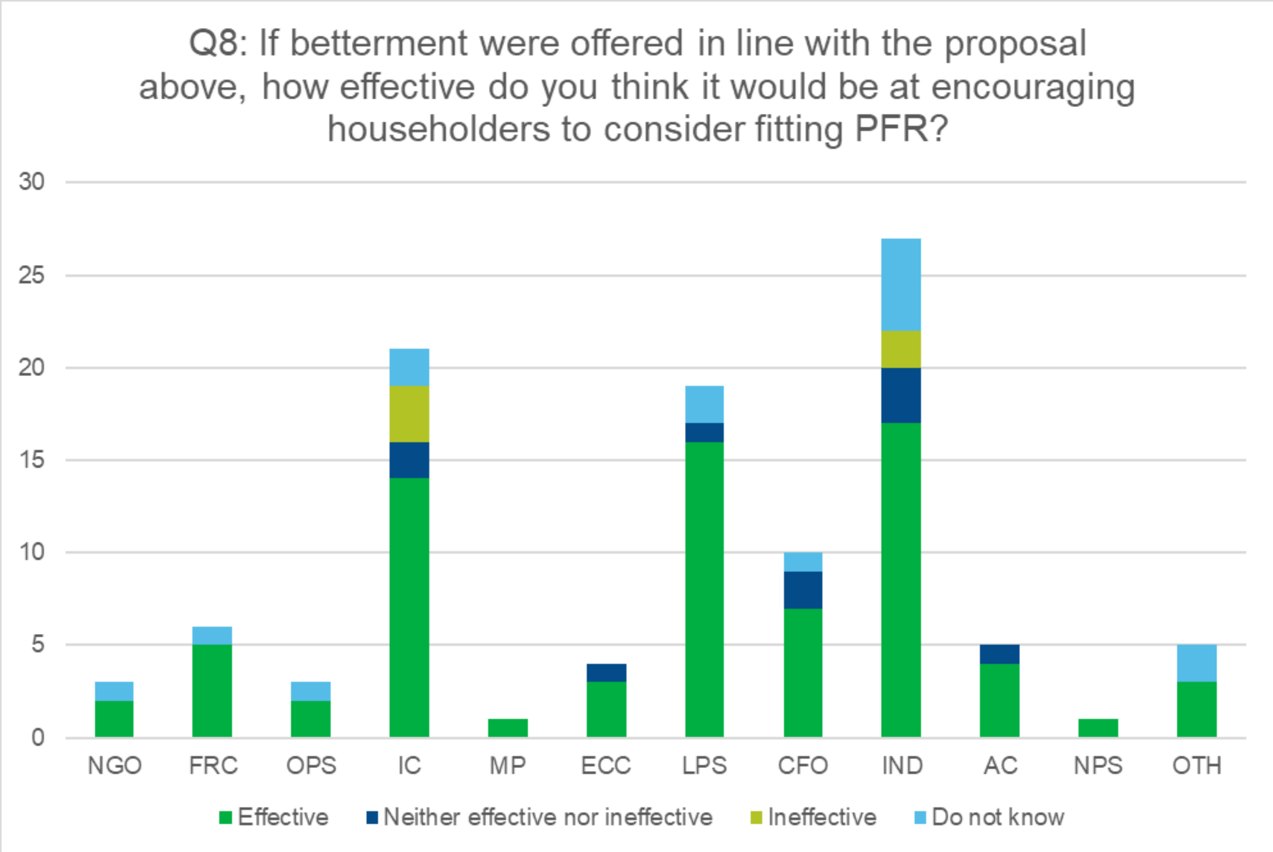
Figure 12 indicates that the respondents who considered the proposal would be neither effective nor ineffective were distributed across several stakeholder sectors, including individuals, insurance sector, engineering companies and consultancies, academia and local public authorities. Those who thought that the proposal would not be effective were from the insurance sector or individuals.

62 respondents provided relevant written explanations of their responses. They gave many different reasons for believing that the proposed approach would be effective, including:

- being attractive to householders seeking to avoid being flooded again (12 response)
- adding an additional layer of flood protection, ensuring they are prepared for another flooding incident (1 response)
- enabling action to install improved measures (11 responses)
- helping people to recover more quickly from a future disaster (1 response)

4 respondents commented on the importance of a financial incentive for people on low incomes. People on lower incomes may not have the choice to put in PFR measures, so Building Back Better would give them this opportunity.

Figure 12. Distribution of responses to Q8 of the consultation across stakeholder groups.



5 respondents (mainly from the insurance sector) mentioned that linking the betterment payment to the insurance claim process would provide further encouragement for take up: PFR would become part of the insurance process and supply chain, which would remove a current barrier. These respondents felt that householders would get many benefits from the uptake of Build Back Better funding, from being able to access insurance for the first time to seeing premiums reduced.

The timing of the payment and the link to the process of claiming insurance following a flood event was mentioned by several respondents as a significant advantage: it reduces costs and disruption as the improvements take place during the refurbishment of the property, when people are out of the home. However, others felt that this is a particularly stressful time for people who have been flooded and that the incentive would be an essential part of helping them to accept the extra delays in repairs required for the installation of PFR and inconvenience of having fittings that are only used infrequently.

The potential for creation of greater awareness was mentioned by 5 respondents, including a local authority and a flood resilience company. It was felt that many homeowners who would consider installation of flood protection measures do not go ahead with this because they believe their insurance premium would increase and that a Build Back Better approach would change this attitude.

The reasons given by those who felt that the Build Back Better approach outlined would not be effective can be grouped under three main headings:

- Build Back Better would not address other significant barriers to uptake of PFR which have also caused low uptake of existing repair grant schemes; these include:
    - emotional, aesthetic and practical barriers (mentioned by 10 respondents)
    - lack of PFR materials and capacity for installation at time of events (1 respondent)
    - lack of standards for products or installation (2 respondents)
- The proposed approach to Build Back Better does not cover full costs:
    - the cover offered is insufficient (1 respondent)
    - does not consider replacement and maintenance costs (2 respondents)
- Lack of evidence of the benefits of PFR making many people reluctant to invest. Without proper data, there is a risk that householders could have unrealistic expectations about what PFR can deliver.

10 respondents were ambivalent about whether the proposed Build Back Better approach would work. Several respondents who considered that the approach would be effective also mentioned caveats. Some of the caveats and issues mentioned were that:

- Build Back Better could reduce the incentive to undertake ex ante mitigation (2 respondents)
- householders need to understand how PFR measures work so that they don’t have unrealistic expectations (3 respondents)
- knowledgeable professionals are available to make assessments of PFR requirements (1 respondent)
- standards, accreditation and building control measures are in place (5 respondents)

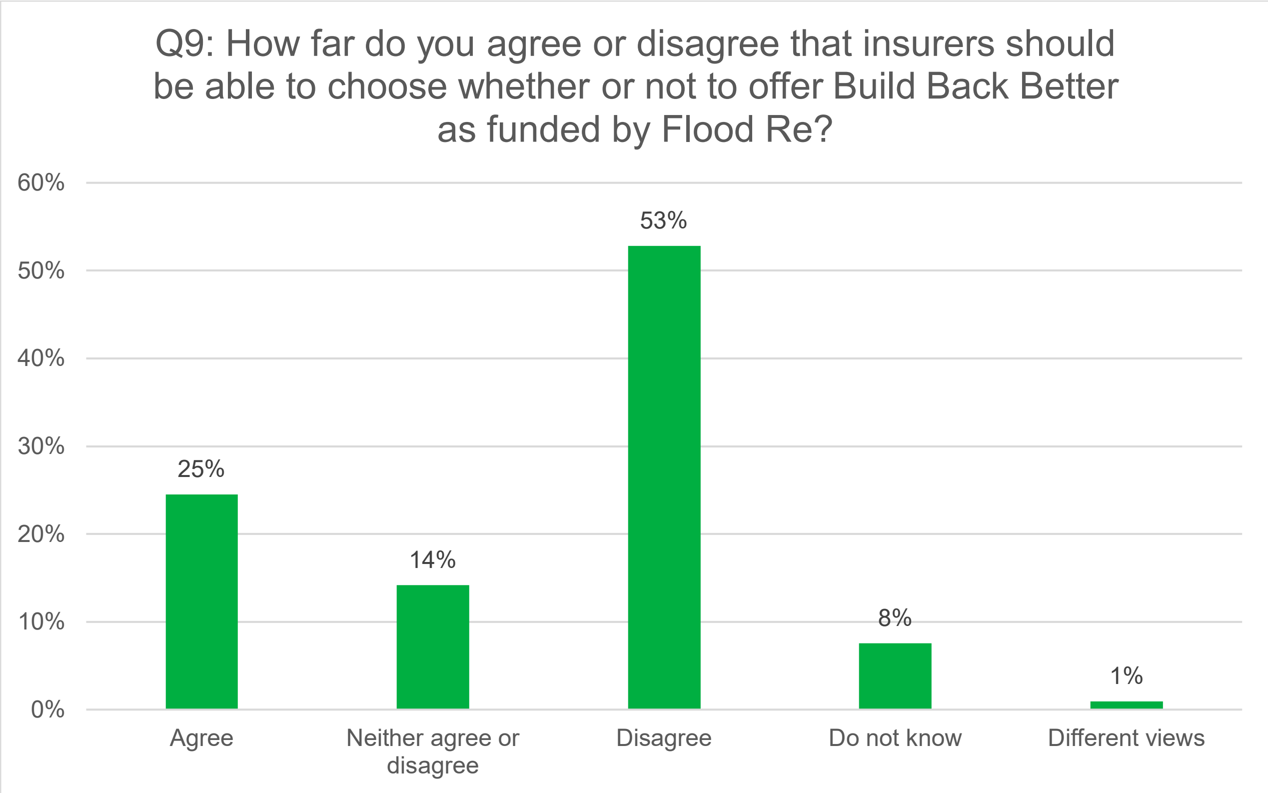
Costs were mentioned as a caveat by 4 respondents: one said that there would have to be substantial reprioritisation and greater investment from Defra and RMAs to deliver proactive community PFR schemes to ensure the quality of outcomes.

One partnership organisation expressed concern at the lack of resilience initiatives for coastal communities: “at present there are very limited initiatives such as Flood Re to assist and prepare coastal erosion (and permanent flood inundation) communities for a resilient future and as such there continues to be a disparity between flood and erosion risk communities.”

Q9: 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?

This question was answered by 106 respondents. Figure 13 shows that over half of respondents (53%) disagreed with the suggestion that insurers should be able to choose whether or not to offer Build Back Better as funded by Flood Re. A quarter of respondents (25%) agreed with this proposition. 14% of respondents neither agreed nor disagreed and 8% of respondents said that they did not know.

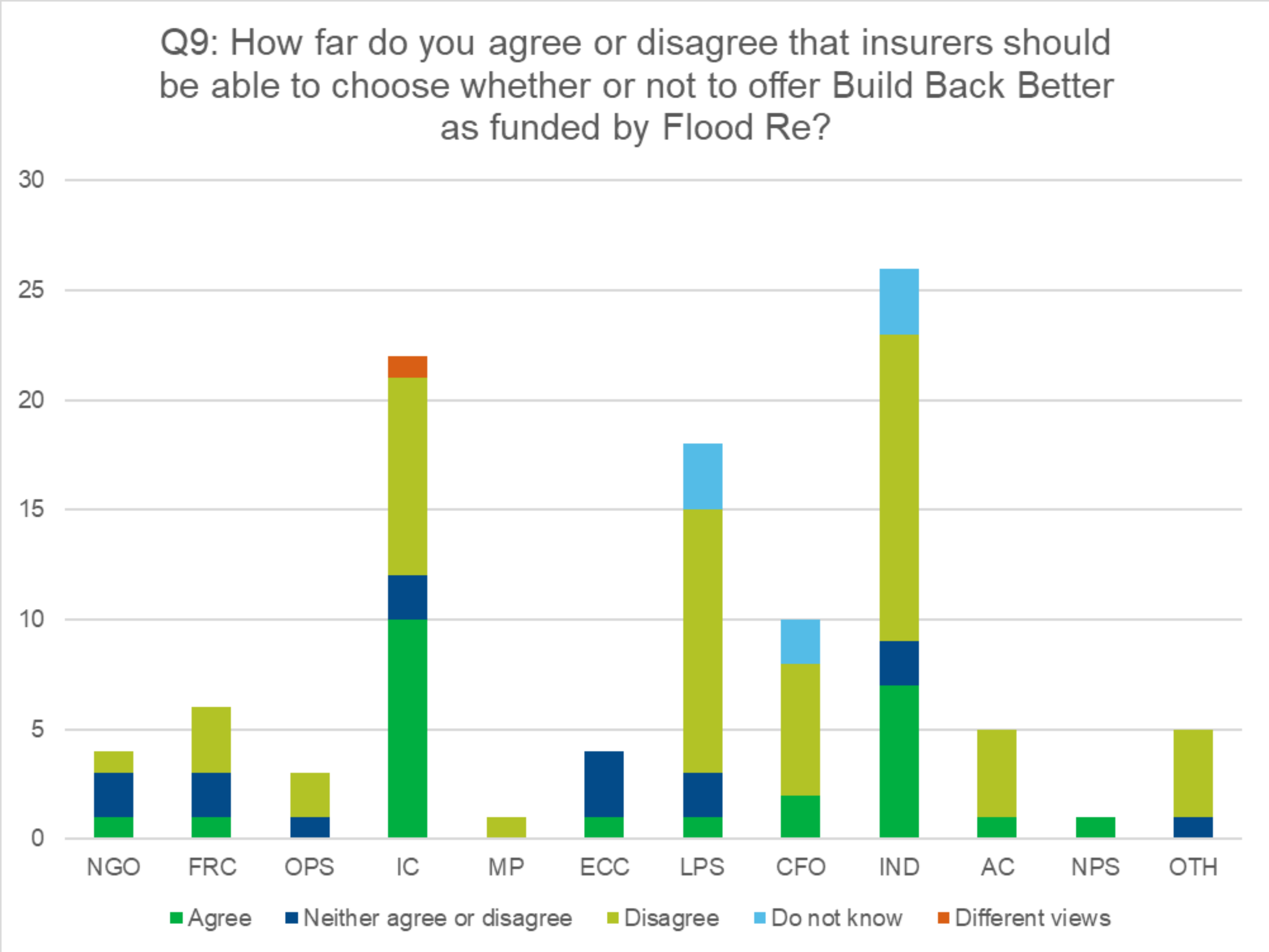
Figure 13. Total responses to Q9 of the consultation.



Looking at the distribution of responses to this question across stakeholder groups shown in Figure 14, the main agreement comes from the insurance sector (9 respondents) and individuals (7 respondents). In the insurance sector, the number of respondents disagreeing with the proposition was the same as the number agreeing; among individual respondents, the number disagreeing with the proposition (14 respondents) was double the number of those agreeing.

Of those agreeing that insurers should be able to choose whether or not to offer Build Back Better as funded by Flood Re, one insurance sector stakeholder suggested that competition in the market would lead all insurers to offer it: if several major insurers adopted Build Back Better, then others would be likely to follow suit. Other insurance sector stakeholders felt it was important for insurers to be able to choose, either because there might be commercial reasons why they could not offer Build Back Better as funded by Flood Re or because it would not be right for Flood Re to mandate insurers to take certain actions.

Figure 14. Distribution of responses to Q9 of the consultation across stakeholder groups.



Two insurance sector stakeholders said that the right conditions did not exist for making it mandatory to offer Build Back Better, given the lack of data about the efficacy of schemes. One respondent emphasised that a mandatory scheme would require clear and consistent standards, measures and access to data, while the other commented that many insurers would need to ensure that an efficient and competent PFR supply chain was in place.

Of those neither agreeing nor disagreeing that insurers should be able to choose whether to offer Build Back Better as funded by Flood Re, several mentioned conditions for insurers being able to choose:

- Insurers not ceding properties to Flood Re should be able to choose as it would be unfair to oblige all companies to provide PFR (PS) – but they can't then expect to get funding from Flood Re (CFO)
- If insurers were able to choose this should be reflected in the premiums (Ind)
- One insurance sector stakeholder commented that while there should be flexibility for commercial insurers as part of a competitive insurance market, this approach would need consistency across the market to have the desired impact and prevent unintended negative market effects. (IC)

For the respondents who considered that insurers should not be able to choose whether or not to offer Build Back Better as funded by Flood Re, the reasons mentioned most frequently were:

- ensuring effectiveness by avoiding opt outs (12 respondents): for example, one respondent considered that allowing insurers to choose whether or not to offer Build Back Better would result in a waste of materials and resources, more time and well-being interruption and no large-scale shift towards a more flood resilient society,
- concern that insurers will not choose to offer Build Back Better unless they are required to (6 respondents)
- consistency of approach and having a 'level playing field' (5 responses)
- ensuring access to PFR for all households (5 respondents): it was felt that it would be good if Build Back Better were compulsory, so this option is available for everyone who is insured,
- fairness: one respondent considered that it was not fair that Flood Re clients all pay the same levy but some may have extra prevention provided and others may not, just depending on who provides their policy (N.B. the respondent's answer to this question is based on a misunderstanding of how the Scheme operates[3]; participating insurers collectively contribute to the annual £180m levy and customers choose policies according to their own needs (see Levy 1 section for further detail).

Of the respondents who neither agreed nor disagreed that insurers should be able to choose whether or not to offer Build Back Better as funded by Flood Re, three felt it should be a commercial decision (so appeared to agree with the proposition that insurers should be able to choose), two felt there were practical issues and suggested there should be conditions for applying the policy and two questioned whether the requirement would be applied to all insurers or only to those with properties ceded to Flood Re, highlighting the pros and cons of each alternative.

One respondent said that market pressures would mean that all insurers would have to offer Build Back Better.

Q10: 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?

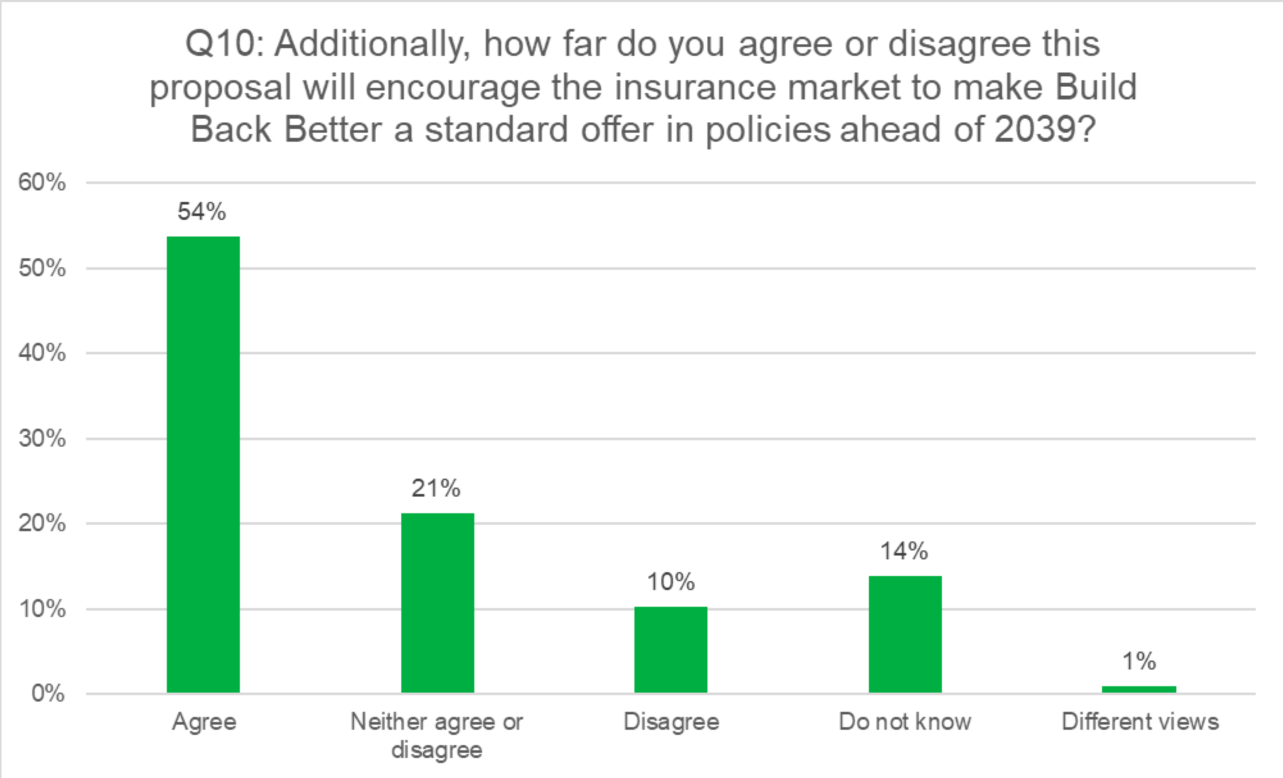
This question was answered by 108 respondents. Figure 15 shows that more than half of respondents (54%) agreed that the proposal would encourage the insurance market to make Build Back Better a standard offer in policies ahead of 2039. 10% of respondents disagreed. 21% of respondents neither agreed nor disagreed and 14% of respondents said that they did not know.

Figure 16 shows the distribution of responses across stakeholder sectors. Those disagreeing that the proposal would make Build Back Better a standard offer in policies

[3] Flood Re scheme operation - https://www.floodre.co.uk/how-flood-re-works/

ahead of 2039 were mainly from the insurance sector (6 respondents); the majority of respondents in the insurance sector (53%) agreed with the statement.

Figure 15. Total responses to Q10 of the consultation.



While many respondents felt that the insurance market would be likely to make Build Back Better a standard offer, there was disagreement about the extent to which the Flood Re model would be carried forward. One respondent stated that the model would act as a compelling example. Others expressed reservations about:

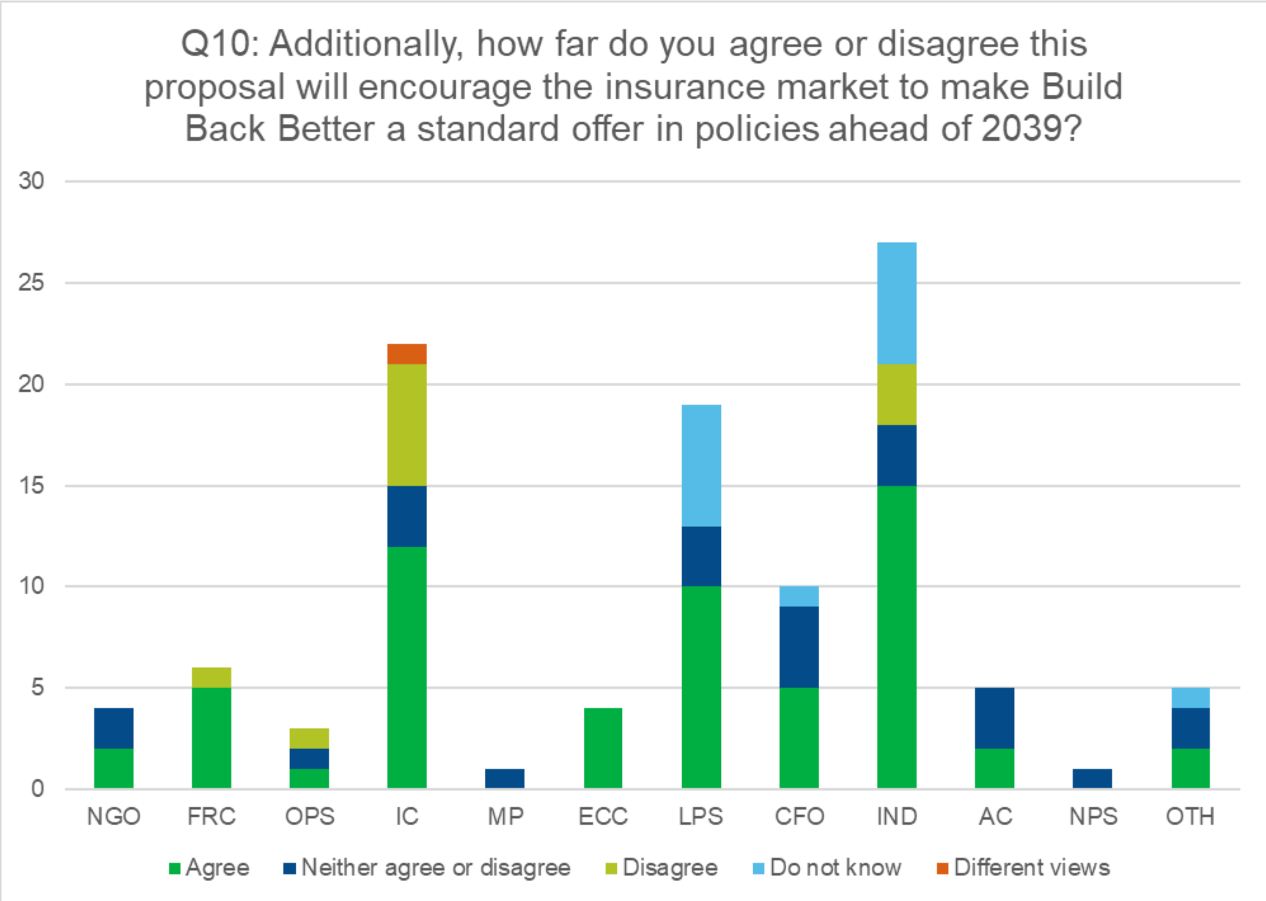
- the ability of the insurance industry to make the policy work,
- unwillingness of insurers to bear the cost after 2039,
- feasibility of the policy being maintained in the absence of legislation.

The risk that insurers that offer Build Back Better could see their prices undercut by competitors not offering the scheme was mentioned by one respondent, who also suggested that this could have a knock-on impact in terms of insurers withdrawing from Flood Re altogether, if Build Back Better were made compulsory for those working with Flood Re. There would need to be a reputational risk associated with not working with Flood Re to avoid this happening.

Some respondents said that Build Back Better and other individual property-level measures such as PFR are only part of the solution to reducing the impact of flooding on households. Government investment in flood defences, appropriate planning decisions, increased consumer awareness of flood risk and evidence on the effectiveness of PFR measures are all needed.

The issue of inequality was raised by community flood organisations. If policies including Build Back Better were more expensive this could potentially exclude less wealthy customers who would potentially have the most to gain. Social justice issues need to be addressed especially if Build Back Better is voluntary for insurers.

Figure 16. Distribution of responses to Q10 across stakeholder groups.



Two respondents were concerned about how quickly Build Back Better could become a standard offer in policies[4] because of the increased risks of flooding as a result of climate change.

Levy I

This section is concerned with the period of review of the levy placed on insurers according to their market share. The proposal is to change the cycle of setting the value of this levy from every five to three years with the aim of aligning it with the Flood Re reinsurance procurement programme. This will allow Flood Re to obtain better value for money in purchasing reinsurance and to be more dynamic to their needs and potentially

[4] The proposal for BBB was not suggesting that this become a standard offer in policies by a 2039 deadline. The 2039 timeframe refers to the year Flood Re will cease trading and the market should have transitioned to more affordable risk-reflective pricing.

changing risk profile. The consultation asked respondents their views on this proposed change.

There were 107 closed-ended and 32 coded written responses (Q11) and a further 32 coded written (Q12) responses for Levy 1. The responses were from a wide range of stakeholders with most from insurance companies, individuals and local public sector.

Overall, there was positivity towards moving from a five-year to a three-year levy cycle with 50% agreeing and a further 24% taking a more neutral position.

Respondents noted the value of increased flexibility that moving to a three-year cycle would provide, with suggestions that this would make Flood Re better able to respond to dynamic risks and changes in the market.

Additional advantages of a three three-year cycle included:

- the alignment with Flood Re procurement cycles and the potential to achieve better value for money,
- improved accuracy of the approach and,
- where appropriate, a reduction in the levy and associated premiums

The few negative comments related to concerns over short-termism and questioning whether a move to a three-year cycle was more efficient in reality.

Respondents' views on unintended consequences of the change to a three-year levy cycle were quite varied. Of particular concern to some was ensuring the viability of Flood Re, ensuring that the Scheme had adequate funds, was able to purchase sufficient reinsurance (particularly following a cycle of predominantly wet weather) and insurer pressure on the levy or resistance towards it.

Question 11. How far do you agree or disagree that Levy 1 should be set on a year basis rather than five years? Please give reasons for your answer.

This question was answered by 107 respondents across the range of stakeholders. Of those, 50% agreed that Levy 1 should be set on a three-year basis, only 7% disagreed and a further 24% neither agreed nor disagreed (see Figure 17). 19% responded that they did not know.

Overall, there was quite an even distribution of views across the stakeholders (Figure 18). There was a slightly higher percentage of negative responses (i.e. disagree) amongst some stakeholder groups (e.g. individuals, NGO, citizen/community flood organisations, local public sector, academics). However, the small number of respondents who responded to this question in some stakeholder categories may be overemphasising this result.

Figure 17. Summary of responses to Q11

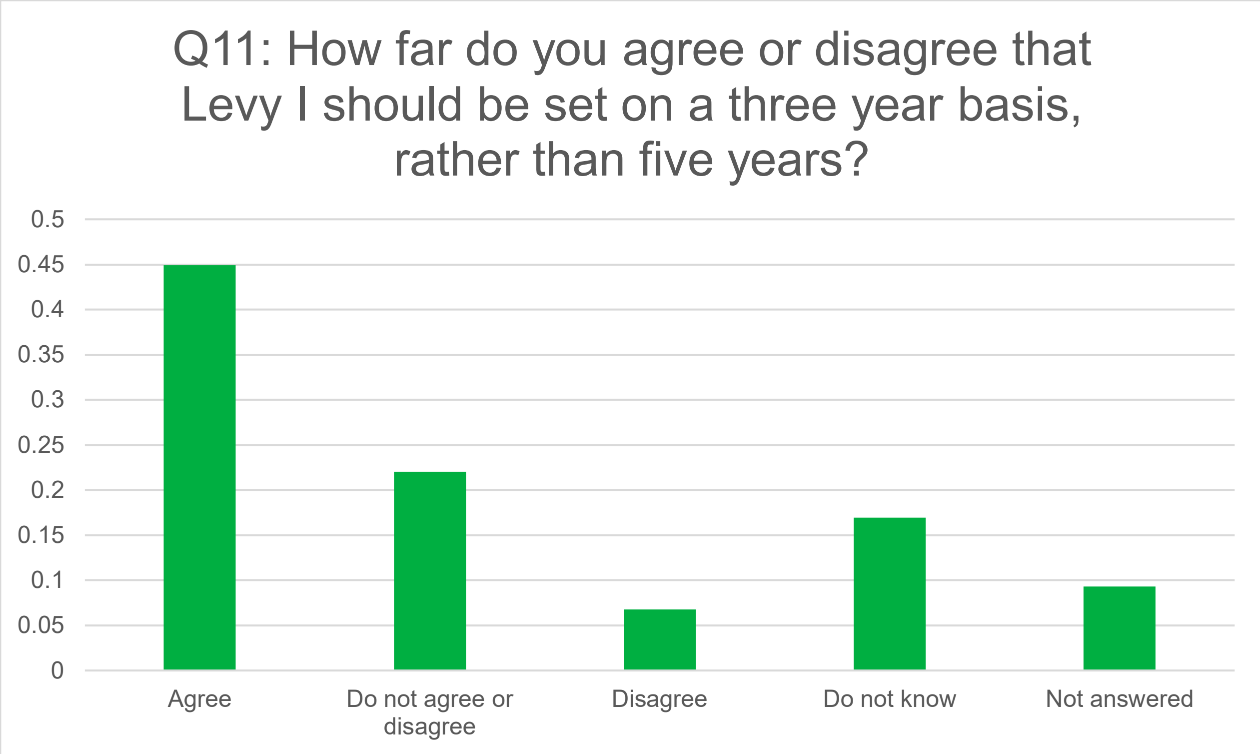
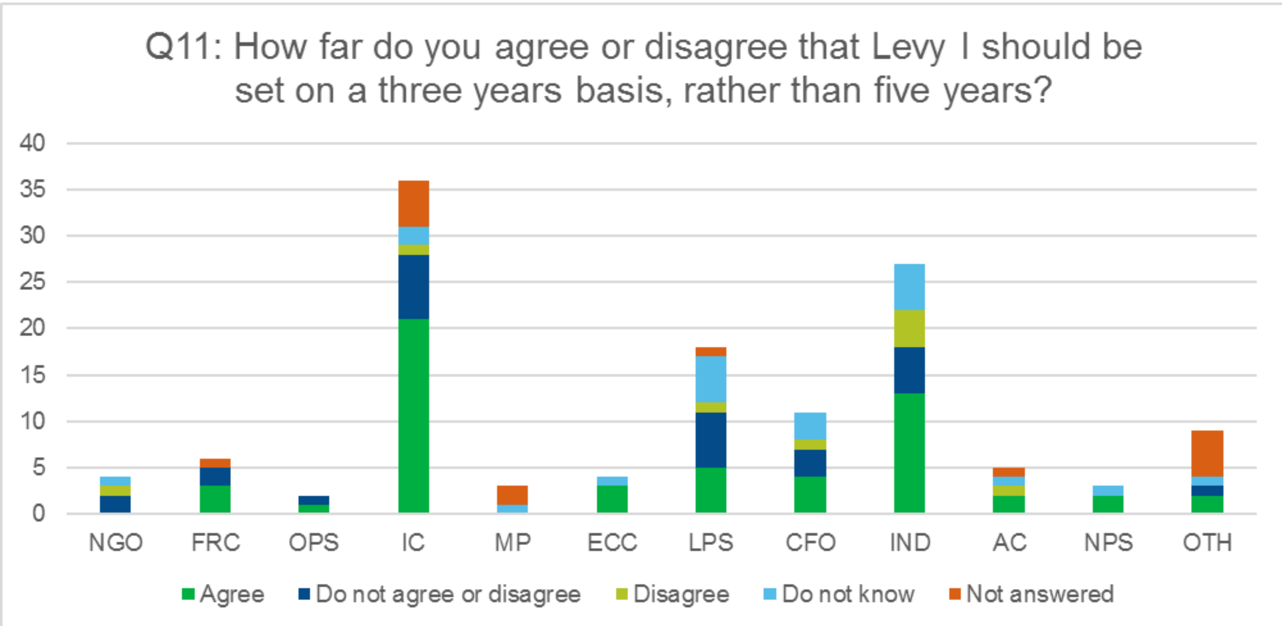


Figure 18. Distribution of responses to Q11 across stakeholder groups.



Respondents were also asked to provide reasons for their answer. 57 respondents provided a response to this supplementary question of which 48 have been coded with relevant information.

The responses received have been grouped into positive and negative responses which broadly align with whether a respondent agreed or disagreed with the proposed move to a three-year levy cycle. Most often respondents who suggested they "Do not agree or disagree" proposed either more neutral reasons or both negative and positive comments and these are discussed within the other categories.

The majority of the coded responses were positive (n=40). This aligns with the overall positive response to this answer and the fact that those who chose “Agree” were more likely to provide a reason (e.g. of the 53 respondents who selected “Agree”, 73% provided a reason, whereas this was only 50% for “Disagree” and 23% for those who selected “Do not agree or disagree”). The following highlight the key positive findings:

- **Increased flexibility** – this was overwhelmingly the most commonly reported reason for agreeing with the proposed change with 26% of all respondents commenting on increased flexibility. Respondents who agreed felt that being able to respond more quickly to changing contexts is important and would make Flood Re more reactive to aspects such as: the market, a period of flooding/no flooding and any changes to patterns of flooding. It would also ensure that insurers are paying the levy based on more recent performance.
- **Lead to a levy reduction and associated premiums** – five respondents suggested that if the Scheme continues to be financially secure then it may provide the opportunity to reduce the levy (and associated premiums) and provide a fairer approach.
- **Alignment with Flood Re procurement/achieve better value for money** – seven respondents in their comments explicitly supported the rationale provided in the question that the move to a three-year cycle would better enable alignment and procurement of reinsurance and supported this explanation. An additional four respondents commented that it would improve efficiency and achieve the best value for money for reinsurance. This would allow for lowering of premiums for flood re cover.
- **Improved accuracy** – four respondents commented that a more frequent review would improve the accuracy and ability to optimise the levy.

Of those that provided less positive explanations for their answers, responses were varied with only one or two respondents providing similar reasoning. The most common objection to the change (five respondents) was because it was perceived that a five-year cycle gave more time for planning or that the change might encourage short-termism.

Other points discussed included:

- questioning whether a five-year cycle was more efficient than a three-year cycle
- it might bring it out of line from other reviews
- three years may not leave sufficient time for insurers to approve and react
- it should be tied to investment rather than being cyclical, and
- whether moving to three-year cycle may be less likely to ensure government commitment to Flood Re.

Finally, there were two respondents who answered “Disagree” to the initial question who said they did not see any added benefit of making the change.

Question 12: Are there any unintended consequences of changing the Levy 1 cycle from five years to three years?

There were 61 responses received for this question, however, only 32 have been coded with relevant information. Additionally, those responses were very short and it was not always clear why respondents considered their response to be an “unintended consequence” of changing the cycle from five to three years, nor did they provide much detail about how this will occur.

Of those that responded, 11 suggested that there were no unintended consequences. Of the remaining 21 respondents who commented, the responses were very mixed and contained both positive, negative and neutral implications.

Four respondents perceived positive consequences of the change. Two respondents suggested that a consequence would be a reduction in premiums for homeowners. Two respondents suggested it might lead to positive changes in the insurance sector, with one suggesting it would accelerate long sought change (although not what). A second suggested flexibility would be a consequence, with insurers being able to enter the scheme every three years. Although the increased flexibility point may still be relevant, the second point is a misperception by the respondent about the functioning of the Scheme, as insurers can enter the scheme at any point in the levy cycle.

In contrast to the two respondents who suggested that the change would lead to premium reductions, six other respondents suggested that an unintended consequence would be an increase in premiums/policy costs with both households at risk and those not at risk. Other negative comments included:

- Two respondents suggested that a reduction in the levy setting period would increase the work for those evaluating and could reduce the notice period needed by insurers.
- Five respondents were concerned about the viability of the Scheme; one respondent suggested that a shorter period may make the Scheme more open to the impacts of cycle periods of wet weather which may make finding reinsurance difficult. A second raised concern of the risk of over or underfunding of the Scheme and the risk that Flood Re might not have sufficient funds and a third respondent suggested that insurers may put greater pressure on the levy. Two final respondents commented that this move reinforces the move to a shorter-term focus and that may cause greater business planning uncertainty.
- Two respondents raised data concerns and whether a three-year period is an adequate data pool to integrate and make decisions. Linked to this was a question of how insurers who are only in the market for part of this period would be considered.
- Finally, one insurer commented that the change might lead to more resistance to Flood Re by insurers.

Liability Limit

This section is concerned with the period of review for the setting of the Liability Limit, which sets the maximum amount of claims Flood Re is liable to pay to insurers in any one financial year. The proposal is to change the setting cycle from a five-year to a three-year basis. This will align it with the setting cycle for Levy 1, as well as aligning it with Flood Re's reinsurance procurement programme, and will afford Flood Re greater flexibility to respond to the Scheme's changing income needs and risk profile.

There were 105 closed-ended and 49 coded written (Q13) and a further 39 coded written (Q14) responses about Liability Limits. The responses were from a wide range of stakeholders, with most from insurance companies and individuals.

52% of respondents agreed that three years is an appropriate setting period for the liability limit while 5% disagreed. 43% of respondents answered "do not know" or "neither agree nor disagree", indicating a high level of uncertainty on this subject. There was strong support for the proposal in the insurance sector: 80% of respondents in this sector agreed.

49 respondents gave reasons for their positions supporting the change to a three-year cycle;

- consistency with the time period for the Levy 1 review
- increased flexibility and
- efficiency of the operation of Flood Re and improved management of financial risk

There were 39 relevant responses on the possible impacts of changing the period that the liability limit is set from five to three years. 15 identified positive impacts, eight identified negative impacts and seven considered there would be no impacts.

The potential positive impacts, respondents identified were: keeping Flood Re funds at an optimal level; ensuring fair premiums for customers and improving flexibility to respond to change.

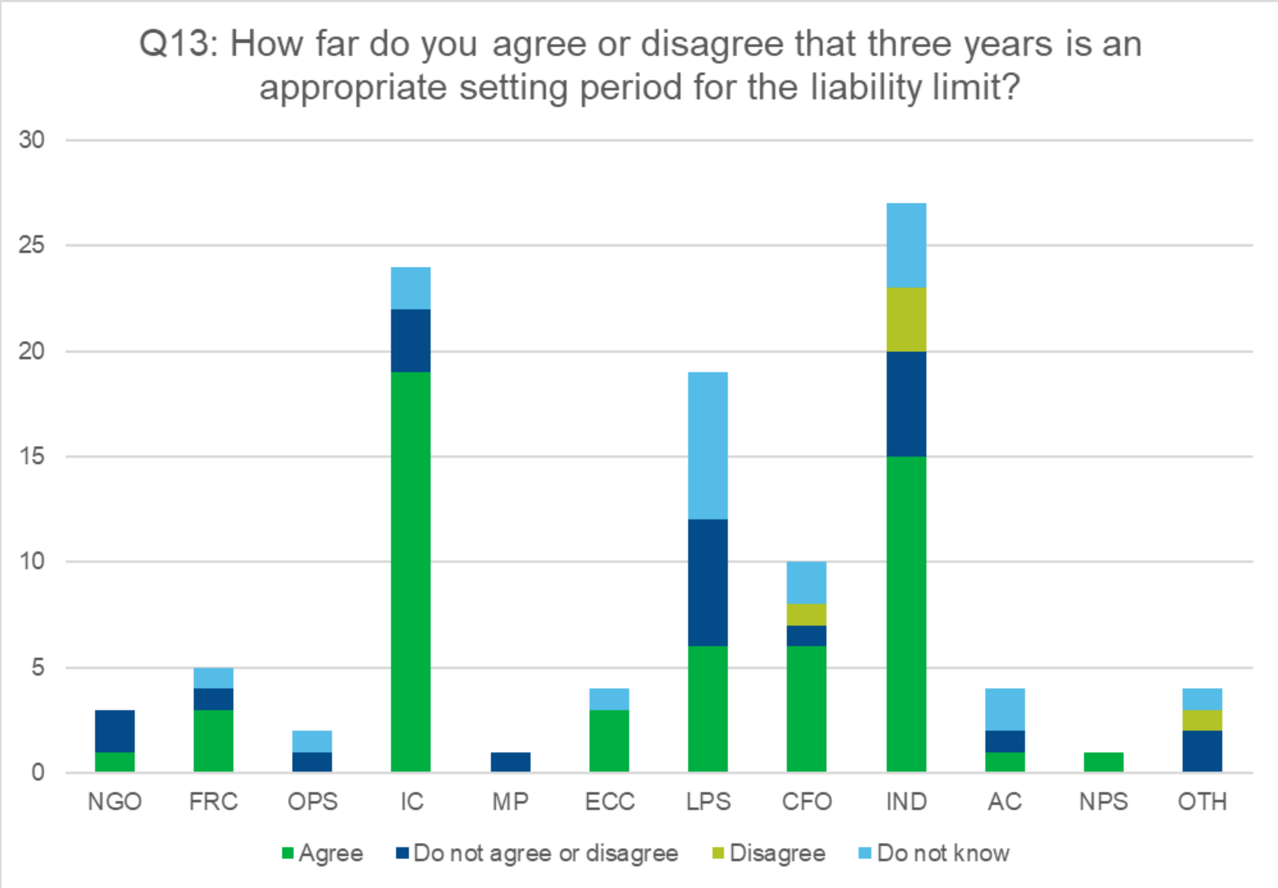
The risks or possible negative impacts identified were: higher premiums, under or over funding of Flood Re and increasing the risk that the years covered by the review could be unrepresentative.

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

There were 105 relevant responses to this question across the range of stakeholders. Of those 52% agreed that three years is an appropriate setting period for the liability limit, only 5% disagreed and a further 22% neither agreed nor disagreed (see Figure 19). 21% responded that they did not know. There was strong support for the proposal in the insurance sector: 80% of respondents (n=19) in this sector agreed (Figure 20). There was slightly more ambivalence in other sectors, with more respondents saying that they did not agree or disagree or did not know (e.g. local authorities, community flood organisations, academia and flood resilience companies). However, the small number of respondents who responded to this question in some stakeholder categories may be overemphasising this result.

Figure 19. Summary of responses to Q13

Figure 20. Responses to Q13 across stakeholder groups



49 respondents provided reasons for their responses. 15 respondents agreed that consistency with the time period for the Levy 1 review (mentioned in the Consultation document) would be important. One respondent who disagreed with the proposed change in the Levy 1 review period disagreed with the change in the setting period for the Liability Limit for the same reason was the only respondent that disagreed with the proposal who provided reasons for their disagreement respondent who disagreed with the proposed change in the time period for the Levy 1 review felt that if the Levy 1 review period were to change, the setting period for the Liability Limit should be aligned with it.

- 34% (n=18) of respondents gave reasons related to flexibility and efficiency of the operation of Flood Re, with some specifying:the abillity to adapt to context changes and changes in demand (5)

greater responsiveness given the context of climate change (2)Several respondents mentioned reasons related to the management of financial risk to support their agreement with the proposed change:

- respond to changes in the market (3)
- allow time to consider and address underlying underwriting performance (1)
- calculate rates to avoid large (underutilised) surpluses (1)
- review liability limit as the money in Flood Re increases (1)

The respondents who neither agreed nor disagreed gave a variety of reasons including:

- the need for long-term certainty for people to be able to plan and adapt, combined with the feeling that the change from a five to a three-year period would not make much difference
- appropriate to change to a three year period provided there is no adverse efffect on customers
- shortening this period may not allow enough time for actions to fully evolve if they require other actions to be completed first
- feasibility of varying the period has been demonstrated by a previous change.

Three people who answered ‘ not know’ refered to issues about the information and assumptions on which proposal for the change rests. One questioned whether there have been changes to the original assumptions and felt that there was no reason for change if the build up of funds has been consistent with original projections.

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

There were 39 relevant responses to this question. Of those, 15 identified positive impacts of changing the period that the liability limit is set from five to three years, eight identified negative impacts and seven considered there would be no impacts. 10 said that they did not know.

Respondents’ answers to Question 14 were overall very similar to the answers they gave to Question 13.

The possible positive impacts identified were:

- keeping funds at optimal level; more efficient reinsurance buying and reduced risk of an inadequate liability limit (IC)
- reducing premiums for customers; ensuring fair and accurate premiums (IC)
- better understanding of the market and planning for the future (FRC)
- improved flexibility to respond to change, e.g. in the Scheme’s risk profile, income needs, the wider climate and the insurance market (LPS, IC)
- significant per annum cost saving (ECC)
- alleviate uncertainty from reinsurers for the duration of the reinsurance contract (IC)
- incentives for insurers to maintain a healthy scheme easing the ultimate move to risk reflective pricing (IC)

Among the risks or possible negative impacts identified were:

- higher premiums (IND, AC)
- under or over funding (IC): this respondent noted that not having enough money to pay when needed could have a negative PR impact on Flood Re

- reducing the number of years covered by the review period makes it more likely that these will be unrepresentative (e.g. with no significant events or many significant events) (ECC).

While several respondents considered that changing the review period could have a positive impact in providing consistency and alignment with other FRM cycles (IND, LPS), another said that a review made on a three-year basis could become out of sync with other Scheme review cycles (LPS).

Use of Flood Re funds

There were 107 closed-ended scale (Q15), 74 relevant written (Q16) and a further 79 relevant written (Q17) responses about concerning the ability of Flood Re to use funds for activities which support the transition to risk reflective pricing. The responses were from a wide range of stakeholders with most from individuals, insurance industry and local public sector.

Overall, 74% of respondents supported the use of funds on a wider range of activities. However, there was a clear difference between the preferences of stakeholders from the insurance industry and non-insurance industry stakeholders. Respondents from the insurance sector were more likely to disagree (25% of respondents, in comparison to 10% for all stakeholders) with funds being used for other activities.

Activities that respondents mentioned as being best placed to put money towards have been categorised as:

- Insurance and Flood Re related (e.g. widening access to the scheme, creation of additional flood insurance products, premium changes, raising awareness of the scheme and training of insurance professionals);
- investment in flood risk management measures (e.g. specific flood risk management measures suggested, approaches to target places which improve resilience of communities);
- Property flood resilience related (e.g. directly fund PFR measures, funding/subsidising PFR surveys, research and demonstrations, gather evidence about appropriateness and effectiveness of measures);
- Data gathering/improving data sharing (e.g. concerning PFR and which properties have PFR installed, flood recovery data, exposure data);
- Awareness raising and education (e.g. for those at flood risk, creation of PFR champions, wider PFR industry training)

However, it was not always clear however how some of the activities suggested by respondents would support Flood Re's a transition to risk reflective pricing.

Positive impacts or consequences of broadening the range of activities that Flood Re is permitted to spend the levy surplus included:

- increased risk reduction
- increased flood risk management funding
- innovation and improved evidence (particularly for property flood resilience) and
- widening access to flood reduction measures and increased industry collaboration

The main concern (14% of respondents) with the spending of the Flood Re surplus and the broadening of activities related mainly to the depletion of funds available to pay claims and the viability of the scheme if there were to be a large flood event occurs.

Additional negative impacts included the potential for a change in the core responsibilities of the scheme and whether this would breach Flood Re's core principles, exacerbate inequalities and lead to the increase in prices and the exacerbation of the existing cross-subsidy.

Many respondents suggested there needs to be oversight and the benefits needed to be demonstrated if surplus funds are able to be spent on wider activities pursuant to their transition to risk-reflective pricing in 2039.

This section of the consultation focussed on whether Flood Re should spend any funds gathered on further activities to support towards helping the transition to a risk reflective home insurance market for those at risk of flooding by 2039. Principally, it seeks to identify whether respondents are in favour of spending the funds generated from levy payments on other activities towards helping the transition, what activities the funds should be spent on, such as PFR, and what impacts or consequences might result from this spend. The section contains three questions, the responses to which are analysed in turn.

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Question 15. How far do you agree 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 and increased uptake of PFR?

This question was answered by 107 respondents. Of those, 74% agreed that Floor Re should be able to spend their funds on a wider range of activities, 12% disagreed and a further 10% neither agreed nor disagreed (see Figure 21), highlighting the overall positive response to this question.

Figure 22 shows the differences between how groups of stakeholders responded to this question. Respondents from the insurance industry were more likely to disagree that the funds should be used on additional activities, with 25% of responses (n=5) in this category and a further 10% neither agreeing or disagreeing. Additionally, individual respondents were more likely to have a mixed response with 63% agreeing, 15% disagreeing and 19% neither agreeing nor disagreeing (with a remaining 4% suggesting they did not know; total n=27).

Figure 21. Summary of responses to Q15

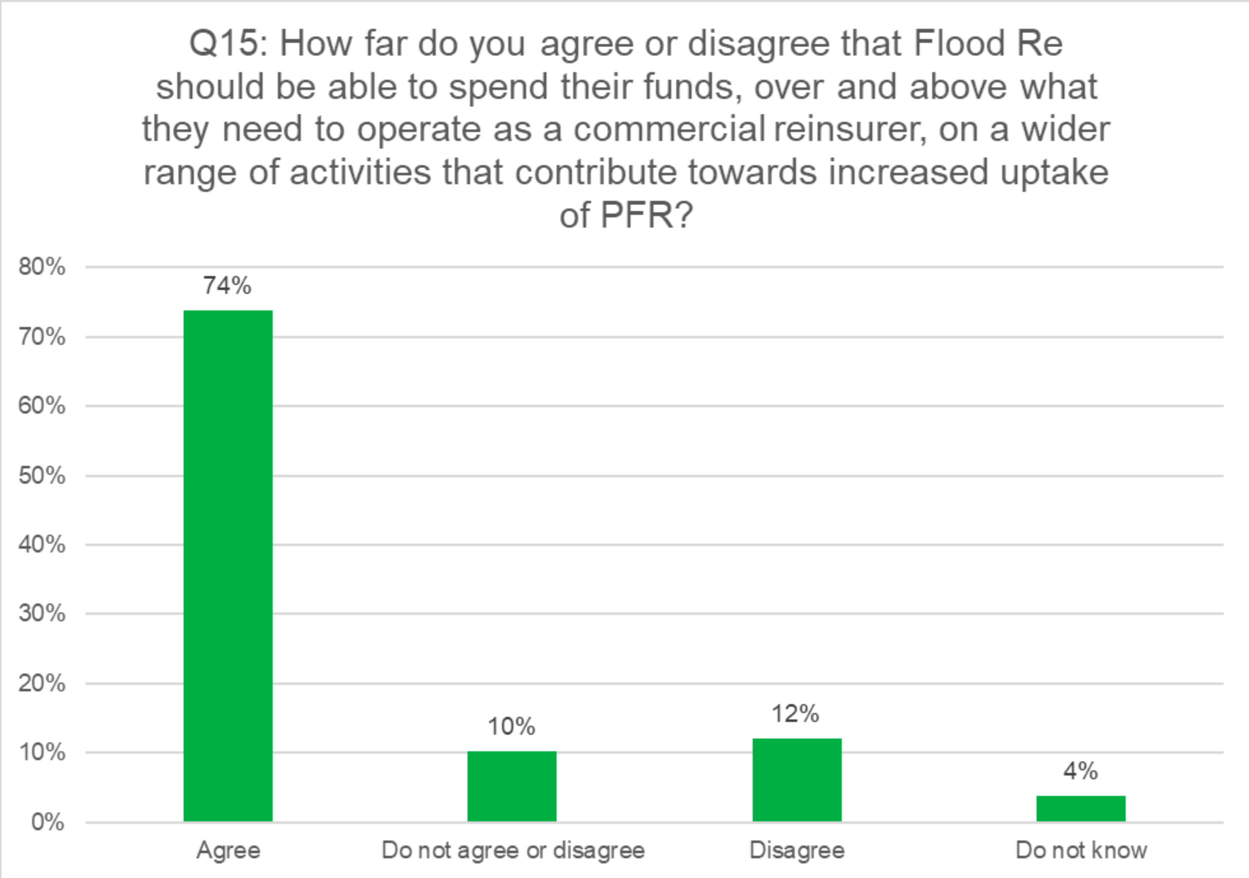
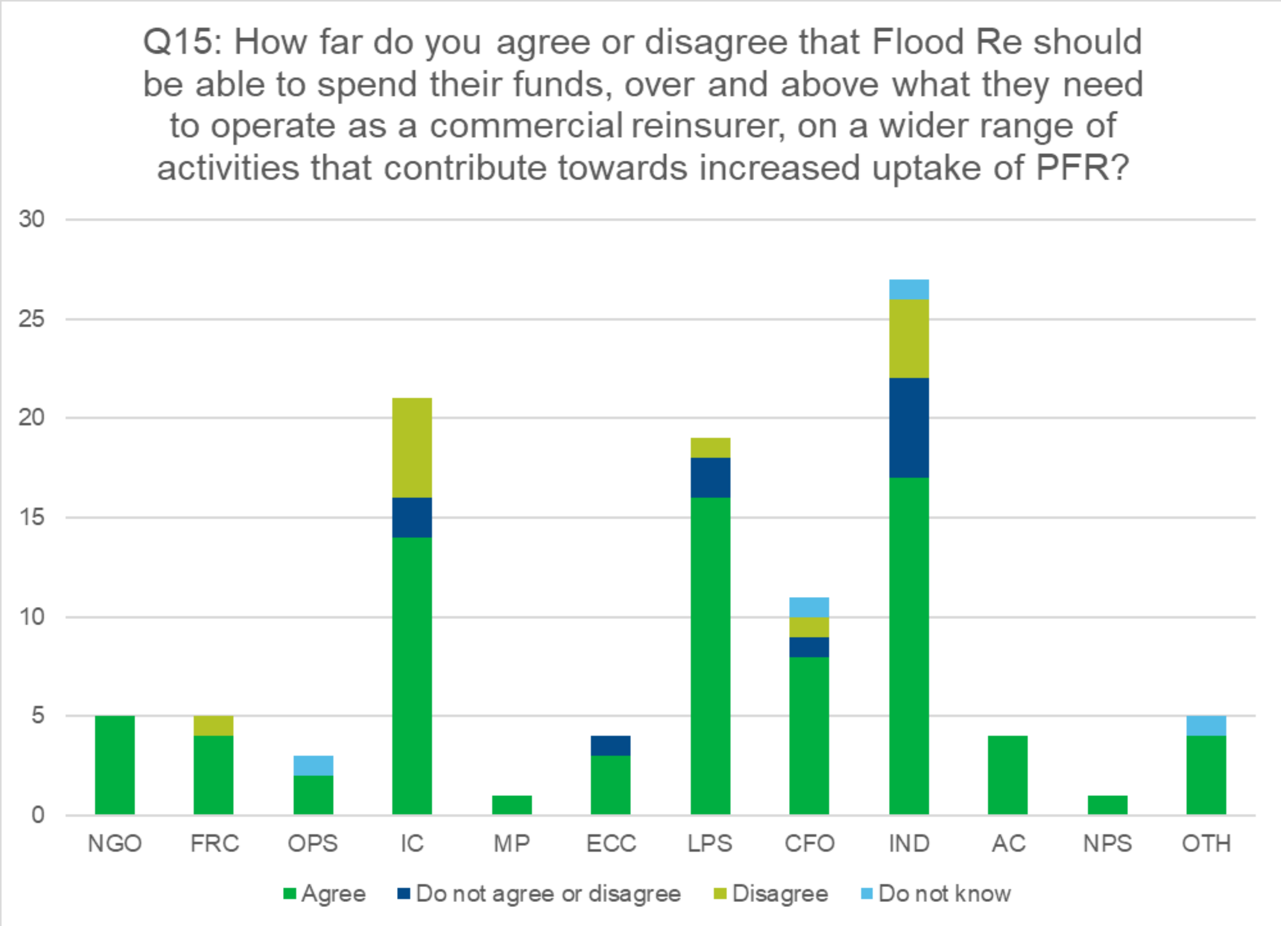


Figure 22. Distribution of responses to Q15 across stakeholder groups



Question 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?

There were 80 respondents to this question of which 74 responses provided information which were coded. This question provides additional insight into the agreement or disagreement of consultation respondents about the spending of Flood Re funds on a wider range of activities.

Importantly, in the written responses to both Q16 and Q17 it was not always clear whether respondents were limiting their comments to only consider activities which support a transition to risk reflective pricing, as there were often few details about the link between an activity mentioned and how they saw it as aiding transition. The nature of responses and the impacts or consequences were both positive (e.g. that the spending of these funds would increase resilience) or negative (e.g. it would undermine the ability of the scheme to meet its claims obligations). Respondents often highlighted a mixture of both potential positive and negative impacts in their responses providing a more complex picture of preferences than indicated in the responses to Q15.

Of the 74 coded responses 19% contained information about only negative impacts or consequences, 49% provided information about only positive impacts or consequences. The remaining 32% provided a mixture of potentially positive and negative impacts or consequences for the use of the funds. Similar to responses for Q15, there was a divide in responses between stakeholders. For the 19% of those suggesting there will only be negative impacts or consequences these were mostly from the insurance industry with an NGO, two individuals, and two community organisations represented. The mixed and positive groups had a much wider group of stakeholders represented.

The key types of positive impacts and/or consequences of broadening the range of activities that Flood Re are able to spend their funds on were:

- **Increase risk reduction -** overwhelmingly, the most commonly suggested positive impact or consequence was that there is the potential for funds to help to increase resilience and/or reduce flood risk and to reduce the exposure and claims in some areas. 19% of respondents suggested actions which fell into this category although the specific actions which they suggested were quite varied.
- **Increased flood risk management funding -** 7% of respondents specifically mentioned that the widening of activities could lead to additional income and funding stream for flood risk management measures.
- **Innovation and improved evidence -** some respondents reported that another positive impact would be driving market change, particularly in relation to the uptake of PFR and associated premium reductions. Respondents described an opportunity to stimulate research and development in this area and to identify the evidence base for resilience products with the outcome hopefully leading to increased confidence in their efficacy.
- **Widening access** - another potential positive impact suggested was to permit wider access to risk reduction measures and/or recovery to a wider group of people (particularly targeting those not already covered by Flood Re and also those where affordability is challenging – see also Q17 responses).
- **Increased industry collaboration** - this covered a number of areas including enabling the industry to seek joint solutions in flood risk management, but also better enabling them to drive change in the flood protection industry.

The key types of negative impacts and/or consequences of broadening the range of activities that Flood Re are able to spend their funds on are:

- **Depletion of Flood Re reserve funds available to pay claims** – this was the most commonly suggested potential negative impact of widening activities with 14% of respondents to this question citing it as a concern. Some respondents cited this as the main reason why they were not in favour of widening access, whilst other respondents (who often cited mixed responses) suggested caution with the depletion of the Flood Re funding ‘pool’. Respondents recognised the need to ensure that claims are still able to be met and suggested that there has not yet been a real test of this since the beginning of the Scheme.

- **Increase/change in core responsibilities/Breach of the core principles of the Scheme** – there was a disagreement amongst respondents of whether using Flood Re funds on activities other than paying claims met the core principles of the Scheme. When recommending activities they would like to see funds spent on, some respondents openly stated that their suggestions would be adhering to those principles. However, eight respondents (seven of whom were from the insurance industry and one individual) were concerned about undermining the core principles of Flood Re by broadening its responsibilities. Respondents stated flood risk management remains the responsibility of central government and other actors are better placed to manage this risk than insurers. One respondent stated that the core principles of the Scheme would be breached.
- **Increase in insurance prices/exacerbation of the existing cross subsidy –** a few respondents (n=4) suggested that spending on other activities means that Levy 1 is higher than necessary, ergo premiums are higher than necessary for those not at risk. Respondents stated that activities undertaken would also "exacerbate the cross-subsidy already borne by low-risk households".
- **Exacerbating inequalities** – whilst some respondents suggested transitional activities could be used to widen access, others (n=4) suggested that broader spending could exacerbate existing inequalities. Some voiced a potential risk of areas benefiting over others (e.g. larger cities favoured), whilst others suggested that a small number of people would benefit at the expense of a larger group continuing to pay (some of whom may be struggling to do so) and having higher premiums.

There were also some more neutral comments of note:

- **Need to demonstrate the benefit of PFR** – concerns were raised that the benefits of any additional spending will need to be demonstrated, particularly the effectiveness of PFR measures in reducing impacts (and associated damages and claims).
- **Ensure that the surplus is spent fairly** – related to both a negative and positive comments on access and inequalities; if funds are to be spent then equity and fairness are key concerns.
- **Oversight needed and checks and balances on how funds are spent** – connected to the above neutral points was the suggestion that if funds are to be spent there needs to be effective oversight needed. Comments from 13% of respondents included that there needs to be a collaborative effort between government and the insurance industry to ensure the benefits of activities and the delivery of value for money are demonstrated. Additionally, respondents were keen to ensure that funds are not so excessively depleted that this would, in turn, threaten the viability of the Scheme.[5]

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[5] P. 19 Flood Re Quinquennial Review, 2019 https://www.floodre.co.uk/wp-content/uploads/QQR_FINAL.pdf

Many of the respondents caveated their answers to this question with comments which referred to the nature of the activities that they felt deserved investment from these funds (e.g. they supported only a limited set of activities). These parts of the responses are discussed as part of Q17.

Question 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?

There were 84 responses to this question across a range of stakeholders of which 79 have been coded with relevant information. Importantly, not all activities discussed appear to overtly relate to the "transition towards a risk reflective insurance market", or it is sometimes unclear from the response how the respondent sees their preferred activities as assisting Flood Re's transition to risk-reflective pricing.

Insurance and Flood Re related activities – a wide range of activities were suggested which have been grouped into broad categories:

- 8% of respondents suggested changing the Scheme to widen access, i.e. to include post-2009 built properties, residential landlords, households that run businesses from their property (especially as more people may be working from home in the future), protection for tenants and small and medium-sized businesses. In addition, it was commented that more could be being done to help those who are uninsured.
- Other respondents discussed the creation of additional insurance products (e.g. tailored community insurance, risks during construction of schemes, social finance).
- Four respondents provided responses concerning changes to premiums or the approaches to calculating premiums. One respondent suggested variable levy rates between insurers (i.e. so those who are more compliant have lower levy rates). Another suggested that ceded premiums better reflect the claims history of a property and not its Council Tax band. One respondent suggested that the funds should be used to reduce premiums (although it is not clear how this relates to the current cross-subsidising).
- 7% of respondents commented that funds should be used to raise awareness of the Flood Re Scheme and its benefits, as well as the view that a transition towards risk reflective pricing will raise the cost of insurance for homeowners.
- 3% of respondents raised concerns over adequate training of insurance industry professionals (e.g. loss adjusters, brokers) that would better enable them to provide advice at all stages of the insurance process (e.g. at the point of sale and not only when a loss has occurred).

Investment in flood risk management measures – many respondents suggested that funds should be used for the direct investment in flood risk management measures:

- Three respondents commented that funds should be used to reduce risk, suggesting that flood risk should be analysed holistically to determine the best options. Another respondent suggested that funds should be used to make all flooded properties resilient.

- A range of different specific flood risk management measures were suggested by the 10% of respondents who reported in this category. These included: flood defence measures (e.g. bunds[6]), grassroots community resilience, green bonds, sustainable urban drainage, nature-based solutions, grey infrastructure and maintenance.
- Other respondents were less specific about the measures but commented that the funds should target those properties which were unable to attract other types of funding (e.g. smaller schemes benefitting multiple properties) or well-defined projects that improve the resilience of communities.

Property Flood Resilience – the highest number of responses (36% of respondents) concerned activities to PFR and various activities to assist in its uptake.

- 13% (n=15) respondents commented that Flood Re funds should directly be used for PFR measures. Different approaches to the use of funds in this way were suggested, including; grants directly to homeowners, working with risk management authorities to provide funding, targeted discounts, lowering the cost of PFR. Some respondents commented that surplus funds should be used to target disadvantaged and low-income groups or be means tested (e.g. using Council Tax bands). Others suggest that they should specifically target those who do not qualify for community level schemes.
- Additional comments related to the funding or subsidising of PFR surveys for properties rather than the funding of the PFR measures themselves.
- As well as directly funding PFR measures a number of other activities were discussed by respondents including: research into PFR and the creation of demonstration and test-bed facilities to help drive quality improvements, development of regulations and/or standards and independent certification and/or accreditation for measures to provide some assurance about appropriateness and effectiveness, capacity and skills building and additional examples or marketing to ‘normalise’ the approach, ensuring that PFR measures are considered in a house survey and monitoring the benefits of PFR over time.
- One respondent also suggested that if Flood Re funds could be used to invest in PFR then it would stimulate demand and encourage wider innovation and growth in the sector.
- Whereas many respondents discussed PFR in the context of retrofitting, others also suggested the need to tackle the resilience of new properties via building regulations.

[6] See definition of ‘bunds’ p. 14 P. 14 https://thefloodhub.co.uk/wp-content/uploads/2018/10/A-practical-guide-for-farmers.pdf

Data gathering/improving data sharing - 13 respondents highlighted data gathering or sharing needs:

- Many of the comments on evidence relate to PFR and the need for better data about effectiveness and the benefits that different types of measures can bring.
- However, there was also a key data sharing need for PFR in relation to the tracking of installation and performance of measures, such as an independent audit trail and assurance platform. This would be needed by insurers to facilitate premium reductions.
- Other comments related to data collection and sharing include: gathering relevant parametric data (e.g. more granular rainfall and watercourse data), data around flood recovery (e.g. what works and how quickly recovery can occur), better understanding where the impacts of measures are highest, improving the quality of exposure data attributes and a survey of the availability and affordability of flood insurance.
- One respondent commented that Flood Re should better engage with insurers to identify key data gaps, identify what data would be useful to collect and how frequently as well as establishing the better use of insurance and Flood Re data which is already held.

Awareness-raising and education – 8% of respondents commented on issues around education and awareness raising:

- Some comments related to broad awareness-raising about flood risk and responsibilities to those living in at-risk areas.
- Other comments were more specific, relating to particular activities. PFR was a key focus for many, with suggestions that homeowners lacked information about their options and since these products are often provided by small companies there was often a lack of advertising. The idea of training PFR champions in communities was also raised.
- As well as focusing on awareness-raising with the public, other respondents suggested targeting those potentially delivering household products (e.g. builders merchants, DIY retailers etc.) so better advice is available for customers.
- Training was also suggested for the wider industry around PFR (e.g. solicitors, conservation specialists, planners).

Other

- One respondent commented that policy issues should be a focus across the broad range of flood risk management measures.
- Five respondents suggested surplus funds should be used for building networks (e.g. communities of practice) and improving communication as results are more likely to be seen by working collaboratively.

In addition to answering the question about which activities Flood Re would be best to put their surplus into, a few respondents presented a more negative view of spending additional funds.

- One respondent suggested that many of the actions needed (e.g. funding initiatives to build the evidence base, providing leadership on a number of flood management issues, working on Build Back Better) are already being supported by Flood Re.
- Six respondents provided details of activities they would not like the funding to be spent on and/or the use of widening the scope of Flood Re's ability to utilise surplus funding is not within the remit of Flood Re (see Q16). There are concerns that too much emphasis is being placed on PFR without an appropriate evidence base to support its effectiveness. Other respondents were keen to point out that any measures had to align with the core principles of Flood Re and that the tools available for Flood Re to assist in moving towards a risk reflective market are limited.
- Another respondent commented that the impact of any potential activities needs to be fully considered before deciding upon the best way to spend any funds.

Flood Re premiums

This section of the consultation focused on whether Flood Re should further reduce the cost of Flood Re's cheapest premiums and what could be the possible impact or consequences from doing this. The section contains two questions, the responses to which are analysed in turn.

There were 107 closed-ended (Q18) and 59 relevant written (Q19) responses concerning the potential for Flood Re to further reduce the cost of their cheapest premiums and the potential impact or consequences from doing it. The responses were from a wide range of stakeholders with most from individuals, individuals, insurance companies and local public sector.

Overall, 44% of respondents supported the proposal of further reduction of Flood Re cheapest premiums, with another 34% of respondents being neutral if this takes place. Respondents from the insurance sector were more likely to disagree (47% of all those who disagreed). The greatest divide in opinions was also observed in this stakeholder group, where 39% of respondents agreed with the proposal, 30% neither agreed or disagreed and 30% disagreed that the cost of cheapest premiums should be reduced.

Respondents indicated both positive and negative impacts and consequences from further reduction in the cost of Flood Re cheapest premiums. The most positive impact according to respondents would be insurance companies being able to offer more affordable premiums benefiting lower income households.

Amongst the wide range of impacts suggested that could present some risk comments included:

- the issue of fairness; it could be viewed as unjust to households in higher Council Tax bands
- fewer people may opt to take out any insurance due to rising cost of premiums in the long-term and,
- potential for disincentivising the need to invest in PFR

Respondents from the insurance sector indicated specific risks including:

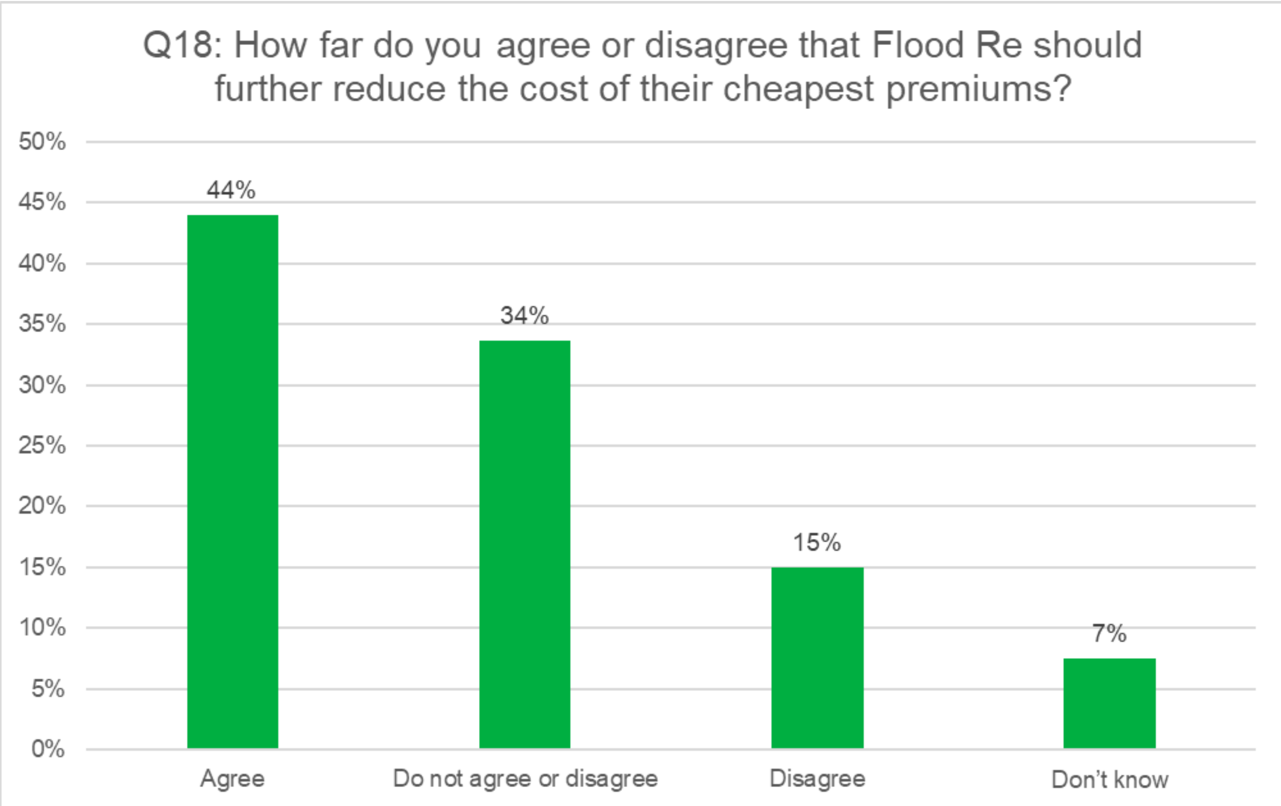
- potential for unbalancing the risk,
- reinsurers may become more reliant on other mechanisms to support the pricing and,
- making it economical to support the reinsurance

Various responses from this stakeholder group also indicated the need to consider this proposal in the context of risk reflective pricing.

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

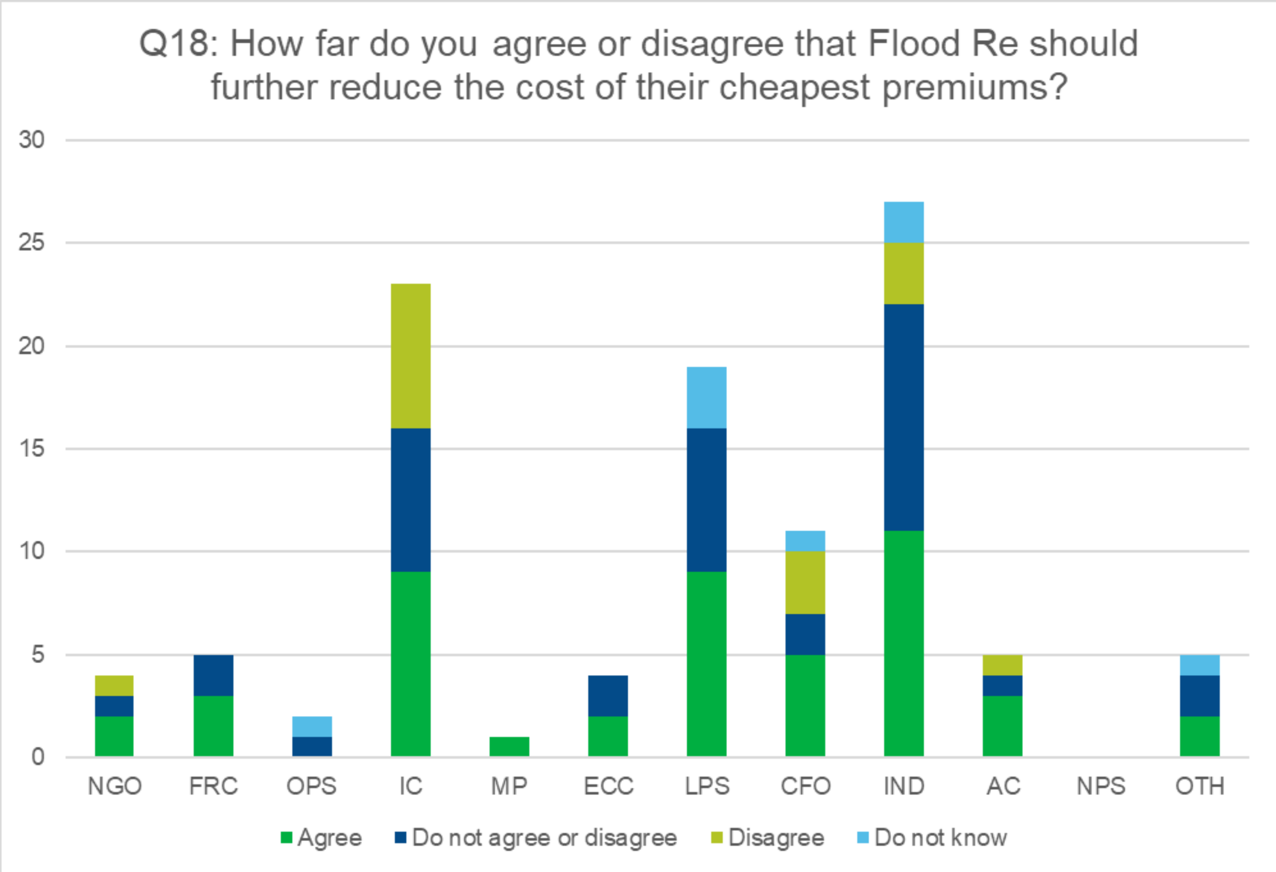
107 responses were received for this question. Of these, 47 respondents agreed that Flood Re should further reduce the cost of their cheapest premiums (44% of all responses), 36 respondents neither agreed or disagreed (34%), and 16 respondents disagreed with this proposal (15%). In addition, 8 respondents indicated they do not know the answer to this question (7%). 11 respondents did not answer to the question. The overview of responses received is presented in Figure 23.

Figure 23. Total responses to Q18 of the consultation.



Most of the respondents across stakeholder groups agree or are indifferent to the proposal for Flood Re to further reduce the cost of their cheapest premiums as shown in Figure 24. Of those who disagreed with the proposal, most were from the insurance sector (47% of all those who disagreed (n=7)), citizens and community flood organisations (20% (n=3)) or individuals (20% (n=3)). The greatest divide in opinions was observed among the respondents from the insurance companies, where 39% of respondents (n=9) from this stakeholder group agreed with the proposal, 30% neither agreed or disagreed (n=7), and 30% disagreed (n=7).

Figure 24. Distribution of responses to Q18 of the consultation across stakeholder groups.



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

75 responses were received for this question. Of these, 59 were relevant to the question and coded. From the coded responses, 6 respondents indicated that they do not foresee any impact or unintended consequences from Flood Re changing the cost of their cheapest premiums.

The impacts or consequences identified by the respondents were both positive (e.g. that it will benefit lower income households) or negative (e.g. that insurance companies would choose not the enter Flood Re scheme). Many respondents indicated the requirements for either ensuring the positive impacts or reducing the negative ones (in 42% of responses coded), providing a more complex picture of how this change might operate in practice.

The main **positive impacts** included:

- Insurance companies would be able to offer more affordable premiums benefiting lower income households (21)
- It would encourage insurance take-up in high-risk areas (2)
- It would help improve the health and wellbeing of those who currently cannot afford insurance premiums (1)
- It might be possible to reduce the fixed £250 excess on ceded policies (1)

- At risk properties could be more viable for sale (1)
- It could reduce impact from floods in flood risk areas (1)

Respondents also indicated a wide range of impacts that could be **perceived as negative or presenting some risk**:

- This could be unjust to those households in higher Council Tax bands as affordability can be an issue in these brackets as well especially among elderly households: two respondents also stressed that this would likely shift the cost to other households (5).
- In the long-term premiums will go up and fewer people may opt to take out any insurance (4)
- It could disincentivise the need to invest in PFR and diminish the impact from ‘Discounted Premiums’ proposal (3)
- In the long-term these premiums could become less/entirely available (i.e. leading up to 2039) (2)
- It could lead a greater cession into Flood Re, which in the long term could be problematic in the context of the end of Flood Re (2)
- Cheaper premiums would make it less likely to offer discounts for installing PFR (1)
- Insurance companies could choose not to enter the Flood Re Scheme (1)
- Households could choose the cheapest option which might not be the right/required solution (1)
- It could result in having insufficient funds to cover flood risks (1)
- It would move the scheme further away from risk reflective premiums (1)
- It would increase the need for Levy 1 income whilst Flood Re's capital is not at the required level (1)

One respondent (AC) suggested that some people might deliberately downsize to a smaller property to access cheaper premiums.

The respondents from the insurance sector (24) indicated specific risks that should be considered including:

- Changing the cost of cheapest premiums could unbalance the risk;
- The further away from risk reflective pricing the Scheme goes, the more reliant reinsurers will become on other mechanisms to support the pricing and make it economical to support the reinsurance.

Several responses from the insurance sector stakeholder group indicated the need to consider this proposal in the context of risk reflective pricing (i.e. what the risk reflective price for a policy should be and how further reducing premium costs would impact its achievement post-2039). One respondent from the insurance sector suggested as an alternative for addressing the affordability of flood risk cover for low-income householders that the Treasury consider whether or not Insurance Premium Tax should be applied on households from lower Council Tax bands.

It was also noted that the prices for cheapest premiums are already quite low, and any changes need to be realistic (to ensure the risks are adequately funded) and adopted in a risk reflective way. Another respondent from the insurance sector suggested that this proposal should only be implemented following a cost benefit analysis “to determine what this might mean for levels of cross-subsidisation and, importantly, whether it would impact take up of cover in a meaningful way”.

Next steps

Defra would like to thank those who gave up their valuable time to provide their views on these proposals.

Following this consultation Defra will be taking forward the following proposals:

- Making the Scheme more effective and efficient through technical changes which allow Flood Re to better reflect their income needs, adapt more flexibly, and procure better value reinsurance. The changes will allow Flood Re to set the Levy and Liability Limit on a three rather than five-year basis.
- We support the proposals for discounted premiums and build back better and we will work with industry to ensure they are implemented successfully and in a manner that helps to address some of the barriers constraining the PFR market allowing it to grow, innovate and mature.
- We will also be carefully considering how best to make use of Flood Re’s funds (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.

Further details about how these proposals will be implemented will be developed over the coming months. Legislative change is required to deliver these proposals. The government aims for the changes to the Flood Re scheme to take effect in April 2022 subject to Parliamentary time and final preparations by the industry.

Government will not be making changes to require Flood Re to reduce their lowest premium at this stage. Government will explore the full range of options to promote uptake of contents cover, taking account of feedback from the relevant question in this consultation.

Appendix 1 List of individuals and organisations that provided evidence

Please note that this list does not include individuals and organisations that asked for their responses to remain confidential.

Individuals and organisations		
British Insurance Broker's Association Zurich Propertymark Federation of Small Businesses Policy Connect, Westminster Sustainable Business Forum National Residential Landlords Association Dr Ben Spencer Member of Parliament for Runnymede and Weybridge National Flood Forum Matt Cullen Newground SmartRural Coop Lion Insurance Consultants Aquobex Andrew Percy Member of Parliament for Brigg and Goole Coop insurance RAB Consultants	The Highland Council Liz Mitchell, Specialist Flood Insurance Broker, Flood Assist Lucy Denny Radcliffe and Redvales Flood Action Group Flood Innovation Centre, Energy and Environment Institute, University of Hull Philippa Redfern Stephen John Wood Radcliffe and Redvales Flood Action Group Neil Hine David Chipping Kingston upon Hull City Council Warrington Borough Council - Lead Local Flood Authority Lynn Smith Department for Infrastructure Northern Ireland Ian Gibbs, Sedgwick Mark Anthony Stone	Angus Council Nsure Chartered Insurance Brokers Jill Polanski Alan Turner Argyll & Bute Council National Farmers Union (NFU) Thurrock Council AXA XL William L Maxwell Morpeth Flood Action Group Sue Fitton, Flood Action Group Morpeth Flood Action Group SWISS RE University of Potsdam North Norfolk Council, Coastal Partnership East North Northamptonshire Council Greater Manchester Combined Authority Salford City Council

East Riding of Yorkshire Council Halton Flood Action Group George Moir Falkirk Council Duncan Enright Mike French Tony Stark Tony Walmsley Amanda Cartwright Flood Assist John Russell Insurance Services Ltd University of Hull	Trevor Jones Indestructible Paint Ltd Prestige Underwriting Services Ltd North Worcestershire Water Management / Wyre Forest District Council Warwickshire County Council Mary Dhonau Associates Joanne Addie Scottish Flood Forum Ayrshire Roads Alliance (East Ayrshire Council) The Metropolitan Glasgow Strategic Drainage Partnership	Watertight International, Flood Control Northern Ireland Institute and Faculty of Actuaries The Chartered Institution of Water and Environmental Management South Tyneside Council Grantham Research Institute on Climate Change and the Environment, The London School of Economics and Political Science University of Warwick and University of Manchester

Appendix 2 List of evidence documents / links provided

Table 1 List of evidence documents provided

Question #	Document title	Author	Year	Brief description of document	Section drawn on
2 17	Applying behavioural insights to property flood resilience. FRS17191	Park, T., Oakley, M. and Luptakov, V.	2020	The report summarises findings from the behavioural sciences exploring how behavioural insights can be applied to the field of PFR. It reviews the current state of knowledge and summarises evidence from both flooding and hazards literature.	Whole document
6	Flood Risk Management in England. Building flood resilience in a changing climate.	Surminski, S. et al	2020	The study is focused on building resilience to floods in a changing climate. It points to the need for a paradigm shift from reacting to crises towards a riskbased, anticipatory, holistic and all-of-society approach to managing the potential impacts of catastrophes.	5, 6

8	Environment, Food and Rural Affairs Select Committee Flooding Inquiry.	Environment, Food and Rural Affairs Select Committee.	2021	Response referenced appearance by Paul Cobbing, Chief Executive of the National Flood Forum at this Inquiry	Witnesses
16 17	Assessing surface water flood risk and management strategies under future climate change: insights from an agent-based model. Science of the Total Environment, 595. pp. 159-168.	Jenkins, K., Surminski, S., Hall, J. and Crick, F.	2017	Paper presenting insights from a novel Agent Based Model (ABM), applied to a London case study of surface water flood risk, designed to assess the interplay between different adaptation options; how risk reduction could be achieved by homeowners and government; and the role of flood insurance and the new flood insurance pool, Flood Re, in the context of climate change.	Whole paper
16 17	Strengthening insurance partnerships in the face of climate change: insights from an agent-based model of flood insurance in the UK. Science of the Total Environment, 636. pp. 192-204.	Crick, F., Jenkins, K. and Surminski, S.	2018	Using an agent-based model focused on surface water flood risk in London, the paper analyses how other partners could strengthen the insurance partnership by reducing flood risk and thus helping to maintain affordable insurance premiums.	4

Table 2 List of evidence sources / links provided

Question #	Website link
N/A	Citizen Space; the consultation platform: https://www.digitalmarketplace.service.gov.uk/g-cloud/services/555066843653674
9	Explanation of how the Flood Re scheme operates https://www.floodre.co.uk/how-flood-re-works/
17	p. 19 description of Levy 2: https://www.floodre.co.uk/wp-content/uploads/QQR_FINAL.pdf
17	p. 14 definition of 'bunds' https://thefloodhub.co.uk/wp-content/uploads/2018/10/A-practical-guide-for-farmers.pdf