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30<sup>th</sup> June 2015

**The Rt Hon Elizabeth Truss MP**  
From the Secretary of State

Dear Bronwyn,

**FLOOD REINSURANCE: MINISTERIAL DIRECTION**

This letter provides a Ministerial Direction to require Defra to proceed with the implementation of the Flood Re scheme.

You have indicated that this direction is necessary because the value for money calculation for Flood Re shows that the costs of Flood Re are greater than its estimated benefits.

Flood insurance has historically been provided under a series of agreements between the insurance industry and Government, most recently through the 2008 “Statement of Principles” agreement. The Statement of Principles did not determine the price which could be charged, which was a matter for insurers. Price rises had been kept manageable through a cross-subsidy from policies in areas of low flood risk to those in areas of high flood risk. Over recent years, improving data on flood risk means insurers have increasingly been able to charge risk-reflective pricing. Whilst this has long term benefits, such as increasing awareness of flood risk and incentivising its management, I am concerned that in the short term this could lead to disruption of local housing and mortgage markets and economic and social difficulties for the home owners affected. Flood Re will formalise and extend the current cross-subsidy in such a way that it will enable a transition to a free market over time.

Unlike the Statement of Principles, Flood Re will directly address both the availability and affordability of household flood insurance. I believe that Flood Re has advantages over other policy options, in particular that it provides greater certainty on the price paid by customers for household insurance. Flood Re also ensures industry support in managing a smooth transition from the end of the agreement on the Statement of Principles.



I therefore believe that Flood Re continues to provide the best option for meeting the wider public interest in securing the availability and affordability of home insurance in areas of high flood risk. In reaching my view I am, in particular, concerned to reduce the uncertainty facing individuals and communities in areas of high flood risk and the wider social and economic impacts this could have on local housing markets.

I am therefore content to direct you to proceed on this basis.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'Elizabeth Truss', written in a cursive style.

**Elizabeth Truss MP**  
**Secretary of State for the Environment, Food and Rural Affairs**

