

DIRECT LINE GROUP RESPONSE TO THE DEFRA CONSULTATION – SECURING THE FUTURE AVAILABILITY OF HOME INSURANCE IN AREAS OF FLOOD RISK**About us**

Direct Line Group is the second largest general insurer in the UK. Headquartered in Bromley, Kent, it has operations in the UK, Germany and Italy. Direct Line Group continues to be the largest motor insurer in the UK. In 2009 Direct Line Group became the UK's largest home insurer.

Direct Line Group provides a wide range of general insurance products to consumers through a number of well known brands including; Direct Line, Churchill and Privilege. It also provides insurance services for third party brands through its UKI Partnerships division. In the commercial sector, its NIG and Direct Line for Business operations provide insurance products for businesses.

In addition to insurance services, Direct Line Group continues to provide support and reinsurance to millions of UK motorists through its Green Flag breakdown recovery service and TRACKER stolen vehicle recovery and telematics business.

General Response

Direct Line Group welcomes the opportunity to respond to this consultation on the future of flood insurance. As an active member of the Association of British Insurers (ABI), we are fully supportive of the views they have put forward in their consultation response, and as such we do not feel it necessary to reiterate those by providing a detailed answer to each consultation question. However, we have summarised here our overall response.

We recognise that whilst we operate in a market that is successful in providing flood insurance as standard to the great majority of customers in the UK, both increased risk of flood and a much more detailed understanding of that risk have led to higher flood risk premiums and the application of larger excesses, making home insurance decreasingly affordable and available for some households. As such, Direct Line Group is fully supportive of Flood Re as the only viable solution that will provide the clarity, reinsurance and cover needed by those at highest risk of flooding, in a market that continues to promote effective competition and customer choice. However, at the same time Direct Line Group is very clear on the fact that Flood Re should not become a burden on insurers in the long-term, and that our shareholders will have no appetite for additional capital requirements as a result.

In addition, for the cross-subsidisation of high-risk properties to remain palatable to insurers and their customers, Flood Re must operate in the context of a wider investment in the management of the risk of flood in the UK, and appropriate control over the development of new homes.

Direct Line Group does not support the alternative Flood Insurance Obligation (FIO) solution. As a leading retail household insurer, we know the value of being clear and transparent, making ourselves easy to do business with and treating our customers fairly.

The Flood Insurance Obligation will not deliver these outcomes, creating a confusing market for those households at risk of flood, and the potential for wild inconsistencies in the treatment of those customers due to the potentially variable products and fluctuating performance of each insurer against their target quota. Whereas the Flood Re model has a mechanism that incentivises insurers to reduce flood risk premiums to levels agreed as fair and affordable, the FIO solution will not ensure that the prices paid by at-risk households meet those same criteria.

The costs each insurer will have to bear to ensure compliance will also have to be borne by the other households, in addition to the premium increases required to subsidise the high risk policies, whilst taking focus away from delivering value for all of our customers.

Finally, the establishment of the regulatory framework for the FIO solution is unknown and uncertain, including how 'fair, risk reflective prices' are set for the quota policies.

Direct Line Group welcomes the Government's commitment to Flood Re as its preferred option, and will continue our hard work with the ABI towards delivering an effective solution that ensures the affordability and availability of flood insurance for those that need it most.

For detailed responses to each consultation question, please see the response produced by the ABI.