

To:	Defra Flood Insurance Consultation	Date:	08 August 2013
		Ref:	
Circulation:		Contact:	Ian Moodie
		Tel:	024 7685 8650
		Email:	ian.moodie@nfu.org.uk

NFU Response to Securing the future availability and affordability of home insurance in areas of flood risk consultation

The NFU welcomes the opportunity to comment on the Government's proposals for securing the availability and affordability of flood insurance in areas of flood risk. As 2012 has shown us, rural areas remain heavily at risk from flooding events in a changing climate. The development of the Flood Re where insurers pay a levy to subsidise the premium of high flood risk properties will help underpin the availability of affordable household flood insurance which is helpful to both farmers and the wider rural community.

Whilst the scheme secures domestic flood insurance affordability, it does not cover business insurance. It remains prohibitively expensive to get insurance cover for damage to growing crops, grass, fodder, etc so these losses predominantly have to be borne by the farming business. Farmers therefore look to reduce the risk from flooding on their land either by undertaking works and maintenance themselves or by paying drainage rates to flood risk management authorities such as Internal Drainage Boards or the Environment Agency (in the Anglian Region) to undertake such work.

Farmers strongly support Government investment in watercourse maintenance to reduce the risk of flooding and have been concerned by falling funding for watercourse maintenance under Flood Defence Grant in Aid. Whilst the NFU and our members welcomes the additional £5 million for FCERM watercourse and asset maintenance in 2015-16, recently announced in the Government, this additional investment needs to be sustained in future years and significantly enhanced if we are to keep pace with pressures from climate change and development. Where Government investment is no longer sustainable or could be better directed, the NFU wants to ensure that bureaucracy barriers to farmers undertaking watercourse maintenance works are minimised.

Livestock farmers in Somerset, who are already facing wider financial pressures, have suffered severe hardship in bearing losses from flooding during 2012. We would therefore welcome the

Government looking at its provisions for supporting farmers and businesses that suffer from future catastrophic losses.

Another element of flood insurance that needs further consideration is the evidence, data and flood mapping on which premiums are based. At present it is not always clear as to which flood maps have been used by an insurance provider, nor the data and presumptions on which such maps have been developed. In lowland England such as the Fens, areas that would be at a high degree of flood risk are often defended by the structures and works of Internal Drainage Boards. IDB assets are often not included within these flood risk maps used by insurers and as such the extent and frequency of flood risk is often an overestimation. Without transparency of the maps and assumptions used it is difficult for those seeking insurance in such areas to understand whether the premium being charged is proportionate to the true level of flood risk they face.

Similarly, refinements will be needed with the development of surface water flood risk maps and any impact this has on identifying further high risk properties.

The following contains the NFU's answers to the specific questions asked within Defra's consultation paper.

Consultation Questions and NFU response

Q1. Do you have any evidence of small businesses experiencing difficulty with the availability and affordability of property insurance due to the risk of flooding?

Yes. It remains prohibitively expensive to get insurance cover for damage to growing crops, grass, fodder, etc so these losses predominantly have to be borne by the farming business. Livestock farmers in Somerset who are already facing wider financial pressures, have suffered severe hardship in bearing these losses during 2012. We would welcome the government looking at its provisions for supporting farmers and businesses that suffer from future catastrophic losses.

Q2. Do you agree with the Government's policy objective for flood insurance?

Yes, given the focus on domestic flood insurance. However, the economic impact of flooding on agricultural businesses will need further appraisal to consider support mechanisms for cases of financial hardship and to ensure agriculture accrues a fair proportion of financial benefit under FCERM cost benefit assessments.

Q3. Do you agree with the approach taken to analysing the different potential solutions in the Impact Assessment?

No comment.

Q4. Do you agree with the evidence presented in the Impact Assessment?

No Comment.

Q5. Do you have any further evidence which has not been considered in the Impact Assessment?

No.

Q6. Do you support the Government's proposed approach?

Yes, for domestic flood insurance purposes.

Q7. If the remaining challenges associated with Flood Re prove too difficult to overcome, what factors do you think should be taken into account ahead of any decision on whether or not to introduce the Flood Insurance Obligation?

No comment.

Flood Re

Q8. Do you agree that setting the eligibility thresholds according to council tax bands (or their equivalents in the Devolved Administrations) will help ensure Flood Re support is targeted towards those households who need it most, without requiring significant administration? Is there a better method?

Yes. Council tax bands give a reasonable approximation of those who will need the most support and seems the best practical mechanism for setting eligibility thresholds. However, there will be some households, especially in rural areas, who may be 'asset rich' but are income-poor which have seen the value of their properties rise over recent decades. Such households falling in band H would still face challenging flood insurance costs. Some flexibility in setting capped fees within band H (in specific circumstances) may therefore warrant further exploration by Defra and the insurance industry.

Q9. Do you have any views on the proposed initial "eligibility thresholds" within Flood Re (table 1 above), which would effectively cap the technical flood risk premium paid by high risk households?

No, beyond those views expressed in answer to questions 8 and 10.

Q10. Do you agree that the following should be excluded from Flood Re:

a. Band H properties?

Yes. However, there will be some households, especially in rural areas, who may be 'asset rich' but are income-poor which have seen the value of their properties rise over recent decades. Such households falling in band H would still face challenging flood insurance costs. Some flexibility in setting capped fees within band H (in specific circumstances) may therefore warrant further exploration by Defra and the insurance industry.

b. New homes built after January 2009?

Yes. However, this will need to be kept under review, it is essential that construction within flood risk areas are minimise through the National Planning Policy Statement and local planning strategies. Any construction in such areas should mitigate the risk of flooding elsewhere within the catchment.

c. Genuinely uninsurable properties? If so, how would you define these in a consistent way that insurance companies can apply?

In principle yes. However great care will have to be taken to draft a suitable definition. They should also not occur as a result of a reduction in management operations by a flood risk management authority unless actively agreed by the property owners/occupiers affected.

Q11. Should other exemptions also apply?

Not answered.

Q12. Do you agree that Flood Re should apply to both buildings and contents insurance?

Yes.

Q13. Do you have any comments on this proposed way of managing Flood Re's exposure to large losses?

No.

Q14. Do you think a levy equating to around £10.50 per UK household, which the ABI estimate is equivalent to the current cross-subsidy, is acceptable to help address the problem of securing affordable flood insurance for high risk households?

Yes.

Q15. Do you agree that Flood Re will secure the availability and affordability of household flood insurance in the UK?

From the information provided there is a reasonable opportunity for Flood Re to secure the availability and affordability of household flood insurance. However, more work is still needed to both better refine

flood risk areas and improve the transparency of the information and flood maps on which individual property decisions regarding flood insurance are made.

At present it is not always clear as to which flood maps have been used by an insurance provider, nor the data and presumptions on which such maps have been developed. In lowland England such as the Fens, areas that would be at a high degree of flood risk are often defended by the structures and works of Internal Drainage Boards. IDB assets are often not included within these flood risk maps used by insurers and as such the extent and frequency of flood risk is often an overestimation. Without transparency of the maps and assumptions used it is difficult for those seeking insurance in such areas to understand whether the premium being charged is proportionate to the true level of flood risk they face.

Similarly, refinements will be needed with the development of surface water flood risk maps and any impact this has on identifying further high risk properties.

Flood Insurance Obligation

Q16: Do you agree that the Flood Insurance Obligation has the potential to meet the policy objective?

No comment.

Q17: Do you agree that the Secretary of State should have the power to exempt some firms operating in the UK domestic insurance market from the Obligation, e.g. those with market share below a de minimis?

No comment.

Q18: Do you agree that at this stage Ministers should have the option of applying the Obligation to both buildings and contents insurance?

No comment.

Q19: Do you agree that the Environment Agency should be granted powers to act as a „lead administrator“, working with the devolved administrations to compile a UK-wide register that lists by address each domestic property at high risk of flooding?

Yes we feel that the Environment Agency would be best placed to serve this function.

Q20: Do you agree with the broad duties envisaged for the regulator? Is anything missing?

No comment.

Q21. Which of the above approaches to supervising compliance with the Obligation do you believe is best suited to delivering the policy objective whilst minimising the burden on businesses and consumers? Is there another approach not considered here?

No comment.

Q22. Which of the above approaches to imposing sanctions for non-compliance with the Obligation do you believe is best suited to delivering the policy objective whilst minimising the burden on businesses and consumers? Is there another approach not considered here?

No comment.

Q23. Do you agree with our preference that the Financial Conduct Authority should supervise compliance with the obligation, and be responsible for taking regulatory action against insurers who fail to meet their obligation, or should it be or the Environment Agency?

Yes.