



Securing the Future Availability and Affordability of Home Insurance in Areas of Flood Risk

Response from Lloyds Banking Group

Lloyds Banking Group

Lloyds Banking Group (LBG) is a major provider of financial services in the UK and has financial relationships with 30 million customers in the UK. Of most interest to the issue of flooding, we have around a 25% share of the mortgage market, and a 17% share of the home insurance market – about 3 million customers for each.

General Response

- 1 We welcome this consultation on the future of flood insurance. LBG has been a key contributor to the ABI's work on this subject and is a strong supporter of the Flood Re proposal as the only realistic and sensible solution to this key issue that impacts many of our customers.
- 2 The continued availability of affordable flood cover brings peace of mind and financial confidence to about 200,000 LBG customers in high risk areas of the UK. It is vital that this continues, as the consequences to the availability of mortgages and hence to property values would be extremely serious. We are a key member of the CML and have a fundamental interest in this issue both from a home insurance and a mortgage lending point of view.
- 3 A free market in flood insurance would have serious and negative consequences for our customers and we consider that the industry and Government have worked well together to develop a solution that delivers security for our customers.
- 4 Flood Re, however, is just part of the solution. Continued and targeted investment in flood risk management and flood defences is required from Government at appropriate levels of funding. It is also vital that no future housing development is undertaken in areas at risk of flooding.

- 5 The alternative Flood Insurance Obligation is a matter of great concern to us. In addition to being very confusing and uncertain for customers, it will create dysfunctional situations, such as customers at moderate risk having higher premiums than those at high risk, which will be extremely difficult to explain. It will also be unattractive to investors, with potentially serious consequences. We would be concerned about the impact on our shareholders and their investment value.

Responses to Select Consultation Questions

Question 2: Do you agree with the Government's policy objective for flood insurance?

- 6 Yes. Lloyds Banking Group wants to see a solution developed to ensure accessible and affordable flood insurance for high-risk properties. This protection is vital to our mortgage and insurance customers as it will help provide them with security and protect their property values.

Question 6: Do you support the Government's proposed approach?

- 7 Yes. Lloyds Banking Group supports the Government's preferred option of the Flood Re model. It is the only model to have been developed that clearly focuses on affordability; by clearly setting and defining premium thresholds at a level deemed as affordable, it gives clarity on how much people will be charged for the flood risk component of their premium, and means the approach is not subject to the assumptions and uncertainties created by using a single flood risk modelling and mapping approach.

Question 7: 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?

- 8 The Flood Insurance Obligation (FIO) should not be considered as a workable solution. Government needs to consider carefully the effect on consumers, the competitive insurance market, the impact on the wider financial services sector – especially mortgage lending – the impact on investors and on the UK's budget from the wider housing market.
- 9 For customers, the FIO would represent a confusing and disjointed approach to flood insurance, where premiums would be in a constant state of flux, an increasing number of moderate flood risk homes would struggle to access affordable cover, and high risk homes would find themselves pushed around the market as insurers managed their quotas each year. It is also likely to lead to unfair and dysfunctional situations, where those at moderate risk pay more than those at high risk.
- 10 A model which compels insurers to take on risks that they would otherwise choose not to is likely to result in many insurance companies leaving the UK market; a reduction in competition that would inevitably increase prices. It will be unattractive to investors, with potentially severe market consequences.

Question 8: 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?

- 11 It is not ideal, but we know that the ABI and insurers have considered a variety of options for targeting or grading support throughout the development of the framework. Council Tax Band is the most easily understood, widely available and equitable factor to use in the circumstances.
- 12 In order for insurers to be able to use premium thresholds based on Council Tax band, it is vital that they are able to freely access Council Tax band data. The Memorandum of Understanding sets out Government's commitment to provide this dataset to the industry, free of charge. For Flood Re to be workable in Wales, Northern Ireland and Scotland, Government should ensure that Council Tax (or similar) bands in those countries are indexed and incorporated into the dataset.

Question 10: Do you agree that the following should be excluded from Flood Re:

• Band H properties?

- 13 Yes. It is important that the support provided by Flood Re is targeted towards those who are most likely to need it. We consider that the vast majority of households in Band H properties should be able to afford risk reflective premiums or to take action to reduce their flood risk.

• New homes built after January 2009?

- 14 Yes. The agreed model for affordable home insurance cannot be allowed to incentivise development in flood risk areas. Ultimately this will increase the overall risk to the UK and make it an unsustainable model. The problem we are trying to solve here relates to properties already built – it is inappropriate to allow such a model to effectively finance housebuilders making irresponsible decisions. This issue should be dealt with via strict and enforced planning regulation.

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

- 15 Properties that flood very regularly represent risks that are financially unsustainable. They are also highly distressing for the homeowners that live in them. The model should be designed such that Flood Re has the authority to compulsorily purchase such properties and remove them from the market completely. Insurers, however, should not be forced to take on the most extreme risks as ultimately the direct flood risk does remain with them.

Question 11: Should other exemptions also apply?

- 16 No.

Question 12: Do you agree that Flood Re should apply to both buildings and contents insurance?

- 17 Yes. Both buildings and contents insurance would be expected to create availability and affordability problems for high flood risk households in a free market. Buildings must be included for mortgage lending reasons. For Contents to be subject to a free market would result in accessibility issues that would be very difficult to explain to customers and would not meet their protection needs. It would also create process complexity.

Question 13: Do you have any comments on this proposed way of managing Flood Re's exposure to large losses?

- 18 Flood Re should not be responsible for liabilities to insurers when annual aggregate losses exceed a 1:200 level. Government needs to take responsibility for the cost of such extreme events.

Question 14: 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?

- 19 Yes. This amount accords with our own view of the level of subsidy needed. It is also affordable for home insurance customers. It is a reasonable cost to create a solution to this issue that is in the wider interests of UK society. We would expect that in reality this levy will be charged as a % of household insurance GWP.

Question 15: Do you agree that Flood Re will secure the availability and affordability of household flood insurance in the UK?

- 20 Yes. As per previous comments.

Question 16: Do you agree that the Flood Insurance Obligation (FIO) has the potential to meet the policy objective?

- 21 No. As per previous comments.

Lloyds Banking Group
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