



Flood Insurance Consultation  
Defra

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**LONDON COUNCILS' RESPONSE TO DEFRA CONSULTATION ON "SECURING THE FUTURE AVAILABILITY AND AFFORDABILITY OF HOME INSURANCE IN AREAS OF FLOOD RISK"**

London Councils is committed to fighting for resources for London and getting the best possible deal for London's 33 councils. Part think-tank, part lobbying organisation, and part service provider, London Councils formulates policies, organises campaigns and runs a range of services all designed to make life better for Londoners.

Our response to the consultation has been developed following consultation with London boroughs. London Councils' also nominates councillors to sit on the Thames Regional Flood and Coastal Committee (RFCC), who represent the views and interests of the London boroughs. Our response reinforces many of the points made in the Thames RFCC response, but also makes some additional points.

Following on from my letter of 16 July to Lord de Mauley, about the Waste Management Plan for England consultation, London Councils is again concerned about the short consultation period allowed for a Defra consultation – six weeks in this case – especially given that the summer holiday period falls within the time set aside for responses, making it challenging for us to obtain views from across 33 London councils.

Our response to this consultation is attached overleaf.

Yours faithfully,

A handwritten signature in black ink that reads "Catherine West".

Cllr Catherine West  
Chair of the London Councils' Transport and Environment Committee

## LONDON COUNCILS' RESPONSE TO DEFRA CONSULTATION ON "SECURING THE FUTURE AVAILABILITY AND AFFORDABILITY OF HOME INSURANCE IN AREAS OF FLOOD RISK"

### Overarching comments

1. London Councils welcomes the opportunity to comment on this consultation and congratulates government and the insurance industry on the progress that has been made so far in developing a long-term approach to achieving more available, affordable and risk-reflective insurance. However, we believe that the short, six-week consultation period – which partly falls during the summer holidays – is insufficient for stakeholders to adequately consider and respond to the important issues raised in the consultation.
2. Now that this package has been negotiated, we ask for a more robust suite of measures to be put in place to encourage behaviour that will reduce flood damage. For example, it would be helpful for the government to identify a way to require the insurance industry to promote flood damage reduction. Without these extra measures, the desired transition to a risk-reflective approach will be harder to achieve and an important opportunity to provide incentives for actions that mitigate flood damage will have been lost.
3. Under the proposals the government estimates that Flood Re would come into effect in 2015. However, the consultation document is unclear about the interim period. On page 12, it states that the industry has agreed to abide by their commitments under the Statement of Principles for a further month [from 16 May 2013], however on page 36 it states that the industry has agreed to meet these commitments until Flood Re can begin operation. We ask the government to provide clarification and ensure that an adequate agreement is in place, with the insurance industry, so that all householders can continue to obtain competitive insurance cover for the whole of the interim period.
4. Please note that we are only responding to those consultation questions where we have comments.

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

*"Government's objective is to ensure that domestic property insurance continues to be widely available and affordable in areas of flood risk without placing unsustainable costs on wider policyholders or the taxpayer. Over time there should be a gradual transition towards more risk-reflective prices, based on robust evidence of local risk, to increase the incentives for flood risk to be managed whilst allowing time for choices to be made and appropriate action to be taken. The Government envisages this transition taking place over the next 20-25 years."*

5. Overall we agree with the objective, although we suggest that encouraging flood risk reduction should be added to the first sentence as this should also be recognised as a key part of the objective i.e. *"Government's objective is to ensure that domestic property insurance continues to be widely available and affordable in areas of flood risk without placing unsustainable costs on wider policyholders or the taxpayer, and to encourage flood risk reduction".* We also highlight the following points relating to the objective:
  - The two elements to flood risk – likelihood and impact – should be more explicitly recognised. Industry-led incentives for actions to limit flood damage are required alongside the very welcome government commitment to increase investment to reduce the likelihood of flooding.

- Plans will be required from the outset to achieve the transition to risk-reflective prices and incentives for damage reduction. Progress should be monitored to ensure that challenges are being addressed and not deferred, with short reviews at 5, 10 and 15 year intervals.
- Care needs to be taken to ensure the approach is genuinely risk-based. The insurance industry takes account of claim history rather than risk per se. The influence of claim history on insurance cost should be kept under scrutiny as it could mask the transition to risk-reflective price signals.
- The degree of risk should be taken into account if the stated objective, "...to increase the incentives for flood risk to be managed...", is to be achieved.
- Better modelling and mapping will be required and the Environment Agency needs to be adequately resourced to provide this. Also the industry needs to be more receptive to reflecting detailed changes in risk in prices offered.

We suggest the Flood Summit "keystone principles" should continue to be given more prominence to guide and assess these proposals.

**Question 3: Do you agree with the approach taken to analysing the different potential solutions in the Impact Assessment?**

6. We note the comments on Page 30 of the Impact Assessment, and in the consultation document itself, about the general level of uncertainty in the benefit-cost analysis and the suggestion that this analysis is more qualitative than numerical. However, albeit more subjective and less clear-cut, we consider this to be better than giving undue weight to numerical estimates that have a high degree of uncertainty.

**Question 4: Do you agree with the evidence presented in the Impact Assessment?**

7. An additional issue that may need to be factored in is that the Flood Re threshold could have an effect beyond insurance and become a marker when people consider flood risk. For instance, it could influence preferred standards of protection selected at the option appraisal stage of scheme development and also have an effect on conveyancing if Flood Re history is revealed. Revealing Flood Re history during conveyancing, including price discounts for any risk-reflective measures taken for a property, would be a positive and powerful incentive for future action by the new owners.

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

8. Subject to the comments elsewhere in this response, we broadly support the proposed approach. We agree with the move to a more risk-reflective approach, accept the need for an extended transition period and see the advantages of Flood Re. We also agree it would be wise to put in place legislation for an obligation as a reserve position.
9. However, as noted above, we believe that more weight needs to be given to the acknowledged fact that Flood Re will *"somewhat weaken the incentives for individual households to take appropriate steps to manage their risk of flooding"*. Additional proposals to address this are required.
10. In particular, under the current proposals, once over the critical Flood Re price threshold, the cost of insurance to the consumer does not reflect degree of risk. This could result in consumers having little incentive to reduce their risk. Householders may not bother with individual property-level resilience and resistance measures if these do not result in reduced insurance costs. We suggest that a two-tier Flood Re scheme could be

introduced, say after 10 years, to give an incentive for people to reduce their exposure to flood risk.

11. We believe that the insurance industry should do more to uphold the "keystone principle" that *"There should be a timely and transparent service for those going through a flood insurance claim"*. Additionally, the industry should do more to promote good practice by policy holders to reduce flood damage (e.g. having a rehearsed flood plan). This may be hard to cost on a policy by policy basis compared with risk reduction measures, but overall benefits will be achieved from reducing the consequences of floods. We suggest that the government should require the insurers to promote flood damage reduction.

**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?**

12. Great care needs to be taken in setting a Flood Insurance Obligation. Clear roles and responsibilities will need to be defined, and adequately funded, for those with a formal role in servicing this model, including the Environment Agency to prevent scarce resources being diverted away from delivering risk-reduction measures. This should be considered by the government when exploring options for funding the ongoing management of the Obligation.

**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?**

13. We understand why Council Tax bands are being proposed to define the eligibility thresholds, but this alone will not adequately target Flood Re support to those households who need it most. In London and the South East, Council Tax bands do not necessarily correlate with homeowners' ability to pay insurance premiums. We suggest that the government should explore whether a measure to indicate ability to pay, such as Indices of Multiple Deprivation, could also be incorporated into the thresholds to strike a better balance between simple administration and adequately targeting the support to the most vulnerable households.

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

**a. Band H properties?**

14. We agree with the principle that those with the greatest ability to pay should not receive as much support through Flood Re as those with less ability to pay. However, particularly given our comments made under Question 8 about the potentially limited correlation between Council Tax bands and ability to pay, it seems questionable whether excluding Band H entirely from the scheme is fully justified.

**b. New homes built after January 2009?**

15. We do not believe that there has been sufficient publicity to make the issues clear to people buying new houses to justify excluding new homes built after 2009 from Flood Re. We believe that it would be more appropriate for the date for eligibility for Flood Re to be set for properties built after the launch date of the scheme (2015 is the indicative year cited in the consultation). We also advocate that the scheme is accompanied by extensive publicity so that people buying new houses after this date are fully aware.

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

16. We agree that genuinely uninsurable properties should be excluded and that these should be defined in a clear and consistent way.

**Question 11: Should other exemptions also apply?**

17. In view of the recent revisions to Change of Use requirements, we suggest that homes converted to residential after a defined date should also be excluded, with effect from the start date of Flood Re. However, this would need to be supported by adequate promotion and publicity. This would help ensure flood risk is taken into account when the new freedom to convert property from business to residential use is exercised.

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

18. Yes.

**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, providing that there is a commitment from the insurance industry to keep costs down and improve standards in line with the keystone principle to provide a timely and transparent service for claimants and to do more to promote efforts to limit damage reduction. Also providing that the government periodically reviews progress in achieving risk-reduction practices.

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

20. Yes subject to the comments above regarding efforts to promote damage reduction.

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

21. Yes, but as a reserve option.

**Question 18: Do you agree that at this stage Ministers should have the option of applying the Obligation to both buildings and contents insurance?**

22. Yes.

**Question 19: 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?**

23. Yes, but see our response to Question 7.

**Question 20: Do you agree with the broad duties envisaged for the regulator? Is anything missing?**

24. We suggest that it would be legitimate to scrutinise the costs and quality of service provided by the insurance industry to ensure value for money is achieved. Without the government getting drawn into regulating services provided by independent, private companies, it is reasonable for consumers to expect some commitment from the industry to driving down costs and improving service.

**Question 23: 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?**

25. We believe that the Financial Conduct Authority could take on the roles specified, but in this scenario it would need to work closely with the Environment Agency and its equivalents in the Devolved Administrations, and potentially others, to draw on the necessary UK-wide flood risk expertise. Roles and responsibilities would need to be carefully defined to ensure there are no unfunded burdens.
26. We also note that the consultation document mentions the Prudential Regulation (PRA) Authority, but does not then go on to consider its ability to carry out the specified regulatory roles. It would be helpful if the government could clarify whether the PRA is being discounted as a further option for the regulator.