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Briefing Note
Flood insurance and the Water Bill

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Headline issue

Through the Water Bill, the Government is seeking powers to establish a new scheme for the provision of flood insurance. The proposed scheme, Flood Re, offers some promising, innovative approaches for dealing with affordability and availability, but it has one fundamental flaw: it does not take into account the problem of rising flood risk levels caused by climate change. Flood Re should have flood risk reduction at its core, providing incentives to address flood risk. Reforming flood insurance without building in mechanisms for risk reduction is a missed opportunity and could jeopardise the future affordability and availability. Flood Re can and should be modified to incorporate risk reduction. This briefing note draws on the latest research to outline how this could be achieved.

Key points to make Flood Re work for risk reduction

It is encouraging to see that in DEFRA's response to the public consultation on securing the future availability and affordability of home insurance in areas of flood risk, it has acknowledged the importance of incentivising risk reduction through Flood Re and has adopted a more positive tone towards many of the points raised below. This now needs to be translated into clear amendments of the Flood Re proposal.

Flood Re should help to build awareness of flood risk. Under the current proposal, the scheme is 'invisible' to the households it covers. Those households covered by the new scheme should be made aware in their policy documentation that they are benefitting from subsidised insurance cover and be provided with information about their flood risk level and what measures are in place to protect them. Flood Re should promote transparency about the relationship between flood risk and premiums.

Flood Re needs to take into account rising flood risk levels. The proposed scheme does not consider how flood risk is being affected by climate change and development patterns. For this reason, it is likely to be put under increasing pressure and may prove to be unsustainable because the number of properties in future that will be at moderate and high probability of flooding has been significantly underestimated. In its response to the public consultation DEFRA has acknowledged this omission. A new impact assessment needs to be undertaken as soon as possible.

A clear plan for the proposed phasing out of Flood Re within 20-25 years is needed. DEFRA should outline how it envisages the subsidised cover offered by Flood Re will be phased out by 2035-2040. This phase out needs to be planned within the context of an overall flood risk management strategy that includes details of future investment levels.

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Flood risk reduction measures by homeowners, insurers and the Government should be encouraged and rewarded. Options to achieve this could include:

- creating a clear economic incentive for homeowners to move out of Flood Re;
- making repairs that increase flood resilience mandatory for claims paid by Flood Re;
- requiring Flood Re to advise homeowners about risk reduction measures that can be carried out on their properties and the benefits of community-level flood risk management measures; and
- utilising insurance retention and excess design to avoid claims inflation.

Better information sharing is required between the Government, insurers and households. Flood Re should facilitate the aggregation of flood risk information held by the Government and insurers, including claims data, and utilise this for communication with policy holders.

Flood Re should be accompanied by policy incentives that encourage developers and planners to give greater consideration to long-term flood risk management. Mechanisms that should be explored include:

- A new public database to monitor and record flood resilience measures and flood risk assessments for new build properties. This database should be used to provide reports for proposed and approved new-build property developments.
- Enhancement of existing partnership funding schemes for flood risk management measures, linked to development.
- A new flood insurance obligation for developers, covering the first 5–10 years of a new home.
- A new flood insurance certificate as a requirement for successful planning decisions.
- The introduction of flood risk as a component in determining Council Tax bands.

Supplementary information

This briefing note is based on a longer policy paper by Surminski *et al* which can be accessed on the Grantham Research Institute's website.

For more information

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