

Response ID

ANON-F4BN-XD32-B

What is your name? - Name

Mateusz Bek

What is your email address? - Email

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What is your organisation? - Organisation

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

No

Do you have any evidence of small businesses experiencing difficulty with the availability and affordability of property insurance due to the risk of flooding? - Please provide any additional comments.

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

Yes

Do you agree with the Government's policy objective for flood insurance? - Please provide any additional comments.

It is desirable to ensure both availability and affordability of flood insurance in the UK. If the objective is achievable, the government should strive to attain it.

Do you agree with the approach taken to analysing the different potential solutions in the Impact Assessment? - Approach taken to analysing different potential solutions in the IA

Not Answered

Do you agree with the approach taken to analysing the different potential solutions in the Impact Assessment? - Please provide any additional comments.

Do you agree with the evidence presented in the Impact Assessment? - Do you agree with evidence presented in IA?

Not Answered

Do you agree with the evidence presented in the Impact Assessment? - Please provide any additional comments.

Do you have any further evidence which has not been considered in the Impact Assessment? - Additional evidence not considered in IA

No

Do you have any further evidence which has not been considered in the Impact Assessment? - Please provide any additional comments.

Do you support the Government's proposed approach? - Support for Government approach

Yes

Do you support the Government's proposed approach? - Please provide any additional comments.

A scheme of (re)insurance against the risk of flood is the most sensible way forward. Ever since flood insurance became widely available in the England and Wales, cross-subsidisation was at the heart of the market practice. Therefore, introducing such a scheme, with its exclusions and limitations, amounts to no more than a formalisation of the existing market practice.

Transition to a purely private market approach should, however, be made conditional upon the market being actually able to offer affordable insurance to the properties concerned.

Two short comments on the proposed scheme:

a) the example of the New Zealand Earthquake Commission shows that it is not wise to freeze by statute or other legislation the rate of levy. Imagine a flood which caused a considerable damage being followed by another one of smaller, yet still substantial, impact. If the deductible under the reinsurance (retrocession) arrangement is high, then the pool might not be allowed to build up a sufficient fund for compensation. In such circumstances, the possibility of slightly raising the levy would allow the fund to build up quicker without burdening the insurance industry too much to support the scheme.

b) it is worth noting that so far no proposal was made as to what would happen to the funds accumulated by Flood Re upon the expiry of the scheme. It is a point worth investigating as it may have serious implications.

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? - Please provide comments.

Whereas introducing Flood Re would be nothing more than a formalisation of the existing industry practice in relation to the provision of flood insurance, imposing the Flood Insurance Obligation would constitute a substantial interference with the market. As such, it would contradict the approach taken by the British government ever since 1961 when the first Gentleman's Agreement was conceived.

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? - Eligibility thresholds

Yes

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?

In principle, this approach should yield a fair result. It must, however, be made sure that no property is disadvantaged by such an assessment.

Do you have any views on the proposed initial "eligibility thresholds" within Flood Re (table 1 in the 'more information' box), which would effectively cap the technical flood risk premium paid by high risk households? - Please provide comments.

**Do you agree that the following should be excluded from Flood Re?
- a) Band H properties**

yes

**Do you agree that the following should be excluded from Flood Re?
- b) New homes built after January 2009**

no

**Do you agree that the following should be excluded from Flood Re?
- c) Genuinely uninsurable properties?**

no

**Do you agree that the following should be excluded from Flood Re?
- If you answered yes to c) how would you define genuinely uninsurable properties in a consistent way that insurance companies can apply?**

**Do you agree that the following should be excluded from Flood Re?
- Please provide any additional comments.**

In theory, every property at risk of flooding should be allowed to benefit from the scheme. While exclusion of Band H properties from Flood Re is a reasonable suggestion, it would, however, be necessary for the government to ensure that all properties within this council tax band are high-income households.

Exclusion of properties built after January 2009 is absurd. Planning policy should appropriately be reinforced by amendments to planning law. People who decided to settle in flood plain areas often did not know or understand the risks associated with such a decision. In addition, they were not informed of the fact that they will not be able to access, let alone afford, an insurance policy for their property. Also, it does not seem entirely fair for the scheme to cover properties built on flood plains before January 2009 and exclude those built on such land after that date.

The main problem with excluding 'genuinely uninsurable properties' lies in providing a definition of the term which would not prejudice any household deserving the benefit of Flood Re. A line would have to be drawn and it would not be easy to do so. In terms of insurance law, it would seem that a 'genuinely uninsurable property' would be one that would be certain to sustain flood damage within any given year (policy term). In the consultation paper, it is stated that 'genuinely uninsurable properties' are those "at extremely high risk of flooding (e.g. where flood damages are expected every year or two)". It is further stated that "their very high likelihood of flooding may mean flooding within a reasonably short period is almost inevitable rather than a distant risk". Again, as a matter of insurance law, unless damage is

inevitable, it is insurable. If damage is almost inevitable, it can be insured. The question would be one of availability and/or affordability of such insurance, not insurability. Are these not the very problems that the model of insurance agreed between the government and the industry was supposed to solve? Was it not supposed to provide insurance coverage at affordable level especially to those who at the greatest risk of flood?

Should other exemptions also apply? - Please provide comments.

No.

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

Yes

Do you agree that Flood Re should apply to both buildings and contents insurance? - Please provide any additional comments.

It is a sound idea.

Do you have any comments on the proposed way of managing Flood Re's exposure to large losses? - Please provide comments.

The example of the New Zealand Earthquake Commission (EQC) shows that it might be difficult, if not impossible, to secure a long-term reinsurance deal, especially after a catastrophic event. Although this was the usual practice of the EQC, after the Christchurch earthquakes of 2010 and 2011 the EQC found it impossible to obtain a reinsurance arrangement for longer than a year. Also, the cost of the reinsurance deal increased substantially following these disasters. These factors should be taken into account with respect to the Flood Re scheme.

It is not clear from the proposal put forward whether the reinsurance (retrocession) agreement will be included in the calculation of the aggregate annual liability cap.

It is also unclear what would actually happen should the cap be exceeded. It appears that the government of the day could decide that there are no resources available to compensate the claims exceeding the Flood Re's limit. Would it not be better to adopt a structured response to such a possibility? What is the point of introducing a scheme that would not be able to respond when needed the most - in the wake of the most disastrous event? There are three types of solutions that can be adopted to solve this issue:

- a) an overdraft facility provided by the government in case of insufficiency of the fund in exchange for an annual fee paid by the pool – a Pool Re type solution (a solution that the UK is already familiar with);
- b) an unlimited guarantee provided by the government should the fund be exhausted in exchange for an annual fee paid by the pool – a New Zealand EQC type solution
- c) reducing proportionately the quantum of claims submitted under the insurance arrangement, so as to meet the amount accumulated in the fund – an Icelandic Catastrophe Insurance type solution

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? - level of levy required

Yes

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? - Please provide any additional comments.

Do you agree that Flood Re will secure the availability and affordability of household flood insurance in the UK? - Will flood Re secure available and affordable insurance?

No

Do you agree that Flood Re will secure the availability and affordability of household flood insurance in the UK? - Please provide any additional comments.

Do you agree that the Flood Insurance Obligation has the potential to meet the policy objective? - Potential for Obligation to meet policy objective

Not Answered

Do you agree that the Flood Insurance Obligation has the potential to meet the policy objective? - Please provide any additional comments.

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? - Obligation - SoS exemptions

Not Answered

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? - Please provide any additional comments.

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

Not Answered

Do you agree that at this stage Ministers should have the option of applying the Obligation to both buildings and contents insurance? - Please provide any additional comments.

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? - EA 'lead administrator' for flood risk register

Not Answered

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? - Please provide any additional comments.

Do you agree with the broad duties envisaged for the regulator? - Obligation - duties for regulator

Not Answered

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

Which of the 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? - Obligation - supervising compliance

Not Answered

Which of the 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?

Which of the 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? - Obligation - sanctions for non-compliance

Not Answered

Which of the 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?

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 the Environment Agency? - Obligation - choice of regulator

Not Answered

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 the Environment Agency? - Please provide any additional comments.