



## **THE FUTURE OF FLOOD INSURANCE: WHAT YOU NEED TO KNOW**

**16 May 2013**

The ABI and the Government want to make sure that flood insurance is widely available and affordable in the future. We are having constructive discussions about how best to achieve that so ABI members have agreed to continue to meet their commitments to offering flood insurance under the existing industry agreement (Flood Insurance Statement of Principles) for one extra month after it expires on June 30 while complex issues are resolved.

Q. Why are you in negotiations with the Government on this?

A. The flood risk has got steadily worse, with flooding set to affect more people more often in the future. This means that the cost of flood insurance will, for some, become unaffordable unless there is a scheme - as in many other countries - between insurers and the Government that involves some form of Government support, to ensure flood insurance remains affordable to those at high flood risk.

Q. Just how big is the flood risk in the UK?

A. Around 1 in 6 homes in England and Wales is at risk of flooding – and it's not just river and coastal flooding; surface water flooding, caused by rainfall running across the ground is a growing issue. As well as being traumatic and disruptive, flooding costs insurers hundreds of millions of pounds a year. The flooding in 2007 cost around £3 billion.

Q. Why can flood insurance not be provided without any government involvement as happens with other types like motor?

A. The flood risk continues to worsen. Last year for example was the wettest on record in England and Wales, and the Environment Agency predicts the number of properties at significant flood risk will rise by 350,000 in 2035. This could make the cost of flood insurance unaffordable for many at risk. Difficulties in getting affordable flood insurance could have implications on mortgages and the housing market.

Q. What is the current industry arrangement and why can it not simply be renewed?

A. Under the current flood insurance agreement (the Statement of Principles) ABI members will renew flood insurance to existing customers, providing the flood risk is adequately managed or government has announced plans to reduce their flood risk within five years. This agreement was set up in 2000 and was only intended to be a temporary measure. Since then everyone agrees that it has become unsustainable: for insurers it distorts competition as there is no incentive for new insurers to offer flood cover, while customers will often get stuck with their existing insurer and may face significant increases in premiums and excesses.

Q. Does this extension to the current agreement mean that you are close to agreeing a new deal with the Government?

A. This is a complex issue as any solution must work for those at flood risk, insurers, the Government and the taxpayer. Everyone agrees that what is needed is a scheme that ensures that flood insurance remains affordable and widely available. While there remain some difficult issues to resolve we aim to conclude negotiations as soon as possible.

Q. How much are you asking Government to contribute?

A. We are not looking for a Government subsidy and are currently discussing with the Government the nature of the support that would be required to ensure that flood insurance continues to be affordable and widely available.

Q. What will happen if my policy is due for renewal between 30 June and 31 July?

A. If your policy is due for renewal during the extension period you will be offered renewal terms for flood cover for a further year in accordance with the Statement of Principles.

Q. Why is it taking so long to reach an agreement?

A. This is a complex issue as we need to ensure that any solution works for those at flood risk, insurers, the Government and the taxpayer. In other countries flood insurance is only widely available to those at high flood risk with some form of government support. We are working hard with the Government to try to reach a deal to safeguard flood insurance.

Q. What happens if no agreement is reached by 31 July?

A. We are working hard with the Government to reach agreement. The extension reflects that we are making progress. The industry and the Government recognise the urgency and are doing everything possible to reach a deal. We have said that if no agreement can be reached then there would be an open market for flood insurance, with insurers free to decide who they offer flood insurance to and at what price.

Q. What exactly is the proposal you are discussing with the Government?

A. Under our proposal for a flood insurance fund ('Flood Re'), affordable flood insurance would be available to those at high flood risk, with the premiums set at an agreed amount. This would be paid for by a small levy on insurers. It is likely that insurers would choose to pass some of these costs onto their customers. The amount of the insurer levy, the set Flood Re premium, and other details are currently being discussed.

Q. I am not at flood risk so why should I have to pay a levy on my policy to subsidise those who are?

A. Anyone can be affected by flooding – you do not need to live near a river or by the sea. Flash floods, which can hit almost anywhere, are becoming increasingly common. It is important for the whole country that flood insurance remains widely available and affordable, to prevent whole communities being blighted, the property market being affected, and taxpayers increasingly being asked to help out flood victims without insurance cover.

Q. What are the outstanding sticking points in your discussion with Government?

A. We are not going into details. Both parties are 100% committed to resolving this complex issue and are in intensive and constructive discussions with the Government

Q. Do these discussions cover all of the UK?

A. We would like the proposed scheme to be available across the UK, and have regular discussions with officials and Ministers in Scotland, Wales and Northern Ireland.

Q. Have talks stalled?

A. Absolutely not. Talks are on-going and constructive. Both the industry and the Government understand the need to get an agreement, and the urgency of this. This is why insurers have agreed to abide by the Statement of Principles commitments for an additional month to give us time to bring our discussions to a conclusion.

Q. How long will it take to set up the new scheme and what will happen in the interim period?

A. First we have to agree a deal. If we get agreement we can begin to implement the framework. This will inevitably take time, and the industry would ensure that appropriate transition arrangements were in place for this period.

Q. Should we expect an announcement?

A. We are at an advanced stage of our discussions and while we cannot give any guarantee, we aim to conclude this by 31 July

Q. How much are you asking Government to contribute?

A. We are currently discussing with the Government the nature of the support that would be required to ensure that flood insurance continues to be affordable and widely available.