

## NFF Conference: Flood Insurance

I am grateful for this opportunity to discuss flood insurance and the Government's role in ensuring that insurance against flooding remains widely available into the future.

But before I do I would first like to thank the National Flood Forum for all the support and advice you give to those living with the risk of flooding including on property level protection and the constructive challenge you have offered to Government on behalf of your members.

I have heard for example of the work you have been doing in the Lower Thames supporting the Environment Agency to carry out property protection surveys as part of the wider flood risk management strategy there. Using your new Flood Information Trailer you have helped the residents of Shepperton, Staines and Chertsey better understand the flood risk they face and what they themselves can do to manage their risk.

I would like to take this opportunity today to reaffirm Government's commitment to managing the risk of flooding for those living in the 5 million properties at risk. We take our responsibilities seriously, and flood risk management is by far our largest area of capital expenditure. But we cannot remove the risk of flooding entirely. This of course is where insurance has a pivotal role to play.

The UK has a private insurance market for flooding where cover is provided as a standard part of domestic insurance. Such a system has existed for more than half a century, and it is a system we all value and wish to see continue.

The continued widespread availability of flood insurance is a matter of primary importance to the many communities at flood risk around the country and is something Government is determined to achieve.

The 'Statement of Principles' between Government and insurers regarding flood risk has been in place for a number of years and was most recently revised in August 2008. Insurers have said they won't renew it on the basis that it distorts the market.

In 2008 the industry and the Government of the day agreed that it should be the last such agreement and would not be subject to renewal.

Whilst the Statement of Principles has provided some reassurance about the continued *availability* of flood insurance in specific circumstances, it is widely misunderstood. The current agreement does not apply to the majority of households at significant flood risk, nor does it apply to homes built since January 2009. It provides no universal guarantee of flood cover, as many claim it does. Nor does the agreement influence the pricing of policies.

So the issue that confronts us today is not the ending of the Statement of Principles. Renewing it would not solve the problem.

The real issue is that insurers are changing their approach to pricing flood risk. In the past insurers have charged all policyholders basically the same price for flood cover, regardless of how likely future flood damages might be.

This is not because of the Statement of Principles, but because of other factors such as insurers wanting to keep policies simple and transaction costs low, and to avoid losing market share to other insurers.

In practice this means that customers at low or no flood risk have been subsidising the costs of flood insurance in high risk areas through their premiums. This places insurers at risk of being undercut by other insurers cherry-picking low risk customers.

This, together with increasingly sophisticated tools for assessing a customer's flood risk, means that prices in flood risk areas are changing. Customers are increasingly likely to be offered terms that more accurately reflect the degree of risk their insurer is taking on.

This is a trend that has been taking place for some time, and a recent survey by the Association of British Insurers suggests that around a fifth of customers in significant flood risk areas already pay a risk-reflective price.

In the long-term, risk-reflective pricing should lead to greater risk management. Where risks are not managed it may lead to adjustments in the housing market

with insurance prices becoming balanced out by lower purchase and rental costs. But in the meantime we need to ensure there is an orderly transition during which time people are not priced out along the way. We need both the insurance and property markets to adjust over a period of years, at an appropriate pace.

Risk-based insurance pricing makes commercial sense for insurers as well as providing important signals to householders. Risk-based terms encourage individual households and communities to consider what measures can be taken to reduce local flood risk.

We need to create an environment where those most at risk have the incentive to reduce it, and are rewarded for doing so through the price of their insurance.

But we are mindful of the impact of risk-based insurance on households on lower incomes living with the risk of flooding. This is why we will continue to work with insurers to consider the case for additional measures to help safeguard the affordability of flood insurance.

The Association of British Insurers has called on Government to consider establishing a risk pool for the highest risk households, and we shall be looking carefully at this and other options in discussion with the industry and other stakeholders. Any new arrangement needs to be fair to those at flood risk and fair to the taxpayer.

It won't be fair or sustainable for the taxpayer to subsidise the cost of insurance for *everyone*, and to underwrite insurers' losses. Other countries that have taken this kind of approach are counting the cost and are now retreating. In the United States the federal Government-backed insurance scheme is \$17 billion in debt to the taxpayer. Is that a model we wish to follow?

We have made it clear that we will consider whether there are feasible, value for money ways of targeting support to help those most in need.

Over the long-term, the only sustainable way of keeping insurance affordable is to manage the risk of flooding.

Which is why the Government's core focus is to continue to invest in risk management. Despite the economic situation, my department plans to spend more than £2.17 billion on flood and coastal erosion risk management in England over the current four year spending period.

Whilst national budgets are approximately 6% less than equivalent spend over the previous four years, these savings are being offset by efficiencies as well as contributions that are coming forward from other sources under our reformed partnership funding system.

As a result, the Environment Agency and the other risk management authorities are on course to exceed their goal to better protect 145,000 households by March 2015 whether by traditional community-scale defences or new approaches including property level protection.

This is why this afternoon I am also pleased to announce the publication of the review of the Defra property level grant scheme.

The five million pound Defra-funded scheme was implemented by the Environment Agency between 2009 and 2011. It funded home surveys for households at risk of flooding so that the most appropriate property level protection measures could be fitted in residents' homes to reduce the risk of water getting in. The scheme helped over 1000 households in sixty-three local authorities reduce their flood risk through the installation of measures including air brick covers, non return valves, and even seals for cat flaps (trusting the cat's already safe)!

The report is now available on the Environment Agency website and we want to share these findings with communities at flood risk and those that develop schemes. I hope many more of these schemes will come forward in the future and apply under the Partnership funding approach.

The review has shown that property level protection is cost effective and the study has underlined the practical help and emotional reassurance that this form of protection gives to people who are at risk of flooding. In most schemes 90 percent of the local residents targeted, went ahead with fitting property level protection measures; and nearly nine out of ten of these residents said that fitting

the measures had given them 'peace of mind'.

The review also found many examples where installation of the measures had prompted communities to come together to manage their local flood risk. For example residents in South Zeal near Oakhampton installed a gauge to monitor flow levels in a stream that has historically caused local flooding, and ran their own emergency exercise to test their community flood plan. In Leeds, the property level protection scheme prompted local residents to organise a 'gulley watch patrol' to monitor the risk of blocked drains causing flooding.

In conclusion the review demonstrates that property level protection can form part of the toolkit that can be deployed by neighbourhoods to reduce their flood risk and protect homes where it is not cost effective or practical to build traditional flood defences.

The evaluation also confirmed that the lack of recognition by insurers of property-level protection is still a significant barrier to the wider take-up of such measures. And we are working with NFF to further explore householder experiences in obtaining insurance after the installation of property level protection. This is just one of the reasons why we are working together with the insurance industry towards the announcement in the spring of a new shared understanding which sets out more clearly what individual customers can expect from their insurer, and from Government.

We want to see the provision of flood risk information improved, whilst ensuring it is used appropriately. And we want to see a market where insurers incentivize households to help manage their own flood risk. This reinforces the principle that action taken by communities, individuals, Government and businesses to reduce flood risk will be the best way of keeping insurance terms affordable in to the future.

It would not be cost-effective to redirect taxpayers' money from flood alleviation to instead subsidise the costs of flood insurance. We need to spend each and every pound wisely and make sure it has maximum impact.

What is clear is that we cannot remove flood risk altogether, nor can the responsibility and costs of flood alleviation be left to the national taxpayer alone.

Wholesale underwriting of the insurance market by Government would not be sustainable or represent value for money. It would amount to focusing on the symptoms rather than the causes.

Government's role with insurers will be to transition to new arrangements and take steps where appropriate to safeguard those most in need of Government support during that period. We need to make urgent progress to agree a sustainable and cost-effective approach to providing ongoing cover. Further announcements will be made in spring this year.