



Department for Environment, Food & Rural Affairs
Flood Insurance and Outcomes
Area 3C
Nobel House
17 Smith Square
London
SW1P 3JR

20 September 2013

Dear Sirs,

The Water Bill and Publication of Draft Flood Insurance Clauses

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to DEFRA's draft flood insurance clauses. This response has been prepared by members of IFoA who have experience of, and expertise in, flood insurance.

The clauses allow for detailed regulations to be drawn up, but do not address the detail themselves. As such, it is not possible to offer detailed and specific comment on whether the final legislation and the resulting outcome from this would address the concerns we raised in our response to the consultation. However, we make the following observations on DEFRA's published commentary.

Paragraph 2 of the commentary states, "if a property has a domestic insurance policy, the policy is likely to be eligible for the Flood Reinsurance (FR) Scheme". This does not fully address the concerns expressed in our response to question 1 of the consultation which were:

The consultation explicitly excludes all commercial insurance from participating in the options under consideration. Whilst this may be a very simple distinction to enforce, it may exclude certain groups of people that could be considered within the overall policy given the spirit in which the policy objectives are set.

For example, many of the arguments applied to home owners also apply to those who are 'accidental landlords' - property owners that have chosen to rent rather than sell at a loss in a depressed housing market. Such accidental landlords may not necessarily be higher earners, as they may be a tenant elsewhere and, therefore, they are ultimately in the same 'net' ownership position as an owner-occupier. Excluding these landlords not only puts them at a disadvantage, but may also have adverse effects on their tenants (who may potentially be in lower income quintiles) should free market pricing leave buildings uninsured.

There is also a fine distinction between micro-businesses and private households; consequently, there is a need for greater clarity. Examples of such businesses could include sole traders operating businesses from their own homes, or home-run B&Bs.

Clause 4(2)(d) places an obligation on the FR Scheme administrator to ensure a smooth transition across the lifetime of the Scheme to full risk reflective pricing, with the current cross-subsidy phased



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out, and to work toward the ending of the scheme by the end of the 25 years. While we welcome DEFRA's further consideration of this, we believe it is not clear how this could be ensured, or indeed, monitored.

Clause 4(5) refers to the disclosure of information that may be required. The supporting text elaborates on this and notes that the FR scheme administrator will need to access the Council Tax database for England. Insurers will also need to access this database in order to operate within the FR scheme.

Clause 8(5) allows for an application process for inclusion on the high flood risk property register. A framework for considering these applications would need to be developed, with consideration as to what kind of supporting evidence is needed to overturn the outcome of the presumably thorough flood modelling that will have been undertaken in order to develop the register.

Clause 8(6) allows for premises to be omitted from the Flood Insurance Obligation register of high risk properties at the request of the person who has the qualifying interest in the premises. Consideration should be given to the circumstances where this qualifying interest changes hands (e.g. sale of the property) so that it is not onerous for a new owner to re-enter the property onto the register.

IFoA remains engaged in reaching a solution to the issue of flood insurance and looks forward to providing DEFRA with detailed comment on the regulations once they have been drafted. If IFoA can be of any further assistance, please contact Philip Doggart, Policy Manager, in the first instance. You can contact him on 0131 240 1319 or Philip.doggart@actuaries.org.uk.

Yours Faithfully,

David Brown

Chair, General Insurance Consultations Committee