Flood Re and the future of flood insurance

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Neil Chapman, Willis Towers Watson
IFoA Flood Working Party
Agenda

- Impact of flood
- Flood Re since launch
- Transition plan
- Outlook
Impact of Flood
Impact of flood
Impact of flood
Impact of Flood UK: Christmas 2015

- Number of claims: 22,000
- Families displaced: 3,600
- Insured losses: £1.3bn
- Total losses: £5bn
- Avg household claim: £50k

26 September 2016
Underinsurance: a global problem

Natural catastrophe insured losses as a % of economic losses, by region, 1975–2014

Source: Swiss Re

http://www.swissre.com/media/news_releases/Underinsurance_in_property_is_a_global_and_growing_challenge_says_latest_Swiss_Re_isigmai_study.html
Flood Re
What is Flood Re?

- Homes built after 2009
- Commercial properties
- Buy to lets
How does Flood Re work?

Flood Re

Flood Re

Low flood risk homes

Premises

Claims

High flood risk homes

Premises

Claims

Home insurers

Flood Re

Premises

Levy

Flood Re

Claims

High risk homes: 1-2% highest risk, ~350,000
How does Flood Re work?

Council tax band
Policy type

Flood Re
Premiums

Levy

Home Insurers

Levy I: £180m

Levy II...

High risk homes: 1-2% highest risk, ~350,000
Council tax vs flood risk

- Pearson weighted correlation coefficient: -0.17%
- Indicates little correlation between flood frequency and council tax
- Flood severity will be more correlated
Flood Re since launch: April 2016

Admiral  Ageas  AIG  Allianz  Avantia  Aviva  Axa  Bank of Scotland  British Gas  Cherish Home Insurance  Churchill  Direct Line  First Direct  Halifax  Haven Insurance  Hiscox  HSBC  inet3  Legal & General  Liverpool Victoria

36 brands onboarded

Market coverage

UW participation by % premium*

- DLG
- RSA
- LBG
- Aviva
- AXA
- L&G
- Ageas
- Halifax
- NFUM
- Chubb
- LV
- Allianz
- CIS
- Assurant
- esure

84% Total of UWs by premium* have some participation in Flood Re

Sales by distribution channel

- Brokers 34%
- Direct 20%
- Banks 27%
- Agents 6%
- Utilities/Retailers/Affinity 11%
- Other 2%

* 2015 domestic net earned premium from PRA returns
** Source: AXCO 2015: 2012 distribution

26 September 2016
Software houses ready to go on Flood Re

“...we are dependent on brokers to develop their software capability. A trial solution could be available by Q2 2017, and hopefully all brokers by 2018.”

Why isn’t Flood Re more widely available via brokers?

“We are in the hands of the software houses and we need to see how much they will charge us.”
Response from insurers

- Insurers who are able to use Flood Re report to have expanded their flood footprint to accept more risk
- Policies are evaluated for expected flood cost before being ceded to Flood Re
- Insurers are not expecting a sharp rise in flood claims
- Insurers with limited existing flood footprint remain cautious
Flood Re since launch: Raising awareness

http://www.floodre.co.uk/lejog/
# Flood Re considerations

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<thead>
<tr>
<th>Strengths</th>
<th>Issues?</th>
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**Discussion: Experiences of Flood Re so far**
Transition plan

Transitioning to an affordable market for household flood insurance

The first Flood Re transition plan

February 2016
"Risk-reflective" pricing

**Outcome A:**
Market will provide insurance to the majority of high flood risk households, but premiums are at a rate that most will find unaffordable.

**Target outcome:**
Market with risk-reflective pricing exists and provides widely available and affordable insurance to high flood risk households.

**Outcome C:**
Transition not successful – market is small and very costly – the majority of high flood risk households cannot gain insurance at all.

**Outcome B:**
Market provides affordable flood insurance for small number of properties (likely those with lowest risk) with remainder of market not being covered.
Reducing subsidy

- Costs of providing flood insurance
- Levy 1 revenue
- Constant revenue from Inward Reinsurance Premium

2016, 2021, Year "x", 2039

Total subsidy provided through Levy 1 revenue

Premium threshold if costs do not decrease

With thanks for Flood Re for permission to use this diagram
http://www.floodre.co.uk/wp-content/uploads/Flood-Re-Transition-Plan-Feb-2016-FINAL.pdf
Aims for an effective transition:

- Reduce cost of flood claims
- Reduce risk of flooding
- Improve the insurance market
Transition: Risk of flooding

Government

Public

Insurance industry

Flood Re
Transition: Cost of flood claims

- Government
- Public
- Insurance industry
- Flood Re
Transition: Insurance market

Discussion: How to improve the market
Final thoughts
Political uncertainty
Climate change
Thanks to Flood Re for their contribution to this presentation.

If you wish to join the Flood working party, please email: philippa.king@lcp.uk.com

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National flood resilience review

- Modelling
- Resilience of infrastructure
- Temporary defences
- Investment strategy
Netherlands

• Tens of billions of euros over 40 years
• €1bn per year maintenance
## Premium by council tax band

<table>
<thead>
<tr>
<th>Cover Type</th>
<th>Property Council Tax Band</th>
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<tbody>
<tr>
<td></td>
<td>A</td>
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<tr>
<td><strong>Wales:</strong></td>
<td></td>
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<tr>
<td>A/B/C</td>
<td></td>
</tr>
<tr>
<td>Buildings only</td>
<td>£132</td>
</tr>
<tr>
<td>Contents only</td>
<td>£78</td>
</tr>
<tr>
<td>Buildings and Contents</td>
<td>£210</td>
</tr>
<tr>
<td>Contents combined</td>
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*Note: The table details the premium costs for different cover types and council tax bands.*
How to flood protect a home

- Flood-proof doors £750 – 2,500+ (or demountable door guards £2,380)
- Airbrick covers £180 – 1,680
- Resilient plaster £6,300 – 8,200
- Concrete/sealed floors £7,600 – 12,500
- Raise appliances £700 – 1,100
- Periphery wall/free standing barriers £5,000 - 12,000
- Additional external layer (render, bricks etc) £2,500 – 4,000 per property
- Automatic door guards £8,000
- Sump and pump £50 – 2,500
- Raise floor levels £28,200 – 44,700
How to flood protect a home

<table>
<thead>
<tr>
<th>Property type</th>
<th>Option</th>
<th>Description</th>
<th>Low cost</th>
<th>Medium cost</th>
<th>High cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Standard resilience</td>
<td>Resilient plaster, removable doors, internal wall rendering, resilient kitchen, raised electrics and appliances</td>
<td>£6,210</td>
<td>£7,830</td>
<td>£9,450</td>
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<tr>
<td>Premium resilience</td>
<td>Concrete/sealed floors, resilient plaster, removable doors, internal wall rendering, resilient kitchen, raised electrics and appliances</td>
<td>£9,620</td>
<td>£11,870</td>
<td>£14,130</td>
<td></td>
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</tbody>
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Impact of Flood
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