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Geoffrey Clifton-Brown MP
House of Commons
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Dear Mr Clifton-Brown

Thank you for your letter of 29th January from Somerford Keynes Parish Council about flooding insurance. I am sorry about the delay in responding.

It may be helpful to explain in the first instance that insurers aim to have the most accurate and robust understanding possible of the flood risk that their customers face. They will use a range of data sources including 'flood maps' purchased from the Environment Agency and the private sector, and their own claims history. An increasing number of insurers are taking a more detailed view of whether a property may flood – down to property-level assessment – and this trend will continue as modelling and mapping improves. The variety in approaches taken by insurers, from property level analysis to postcodes, is an important feature of a competitive market. However, if Somerford Keynes Parish Council believe that the Environment Agency has inaccurately assessed the flood risk of their area it may be best to contact the EA direct. If they amend their assessment as a result then insurers would recognise this within their systems once the data is made available to them.

In the longer term, as you are aware, the ABI agreed a Memorandum of Understanding (MoU) last year with the Government over the industry-led flood insurance solution, known as Flood Re. The MoU established the foundations on which Flood Re could potentially be built to deliver affordable and accessible insurance for high risk households. It has been confirmed as the Government's preferred option, and they are currently legislating for it in the Water Bill which is going through Parliament. Flood Re will make sure that high risk homes, some 350,000 at current estimates, are able to access affordable flood insurance. The aim is for it to be up-and-running by the summer of 2015.

Key elements of the Flood Re solution are:

- Flood Re will be run and financed by insurers as a not-for-profit fund which will cover the cost of flood claims from high risk homes.

- Insurers will pass the flood risk element from those households deemed at high risk of flooding to the fund. Premiums for the flood risk will be calculated based on council tax banding up to a maximum limit depending on the Band. Excesses will also be capped.
- Flood Re would charge member firms an annual charge of £180million. This equates to a levy of £10.50 on annual household premiums and represents the estimated level of cross-subsidy that already exists between lower and higher flood risk premiums.
- Flood Re will be designed to fully deal with at least 99.5% of years. Even in the worst half a per cent of years, Flood Re will cover losses up to those expected in a 1 in 200 year – a year six times worse than 2007 – with Government taking primary responsibility – working with the industry and Flood Re – for distributing any available resources to Flood Re policyholders should claims exceed that level.

While the work to develop this scheme happens, insurers will continue to meet their commitments to their existing customers under the 2008 Statement of Principles, providing MoU conditions are met. Under the Statement of Principles insurers agree to renew home and contents insurance for properties in high risk areas on the understanding that action will be taken to reduce their flood risk. I should also make clear that the agreement does not safeguard against price or excess increases, and despite the agreement, an increasing number of properties are now finding it more difficult to access affordable insurance as a result of an increasing risk of flooding.

I can assure you that the insurance industry is aware of the concerns that some people have about the future affordability of flood cover. The Flood Re framework is specifically designed to help ensure that people in high flood risk areas will be able to get affordable flood insurance.

I hope that this is helpful, but please do not hesitate to contact us again if we can be of any further assistance to you.

Yours sincerely



Otto Thoresen
Director General