

# Flood Re

## An update on Flood Re for BIBA members

April 2015

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### What is Flood Re?

Flood Re is a not for profit insurance scheme designed to enable a more competitive market for flood insurance for those customers who might otherwise struggle to obtain affordable flood insurance. It will give insurers the opportunity to cede the flood risk element of domestic property insurance to Flood Re, at a fixed premium based on the council tax band of the property.

It is a joint industry / Government sponsored scheme to:

- Enable flood cover to be affordable for those households at highest risk of flooding;
- Increase availability and choice of insurers for domestic customers;
- Create a transitional measure to allow flood insurance to move towards risk-reflective pricing within 20-25 years;
- Create a level playing field for new entrants and existing insurers in the UK home insurance market.

It will replace the Statement of Principles agreement that was in place to help maintain flood cover.

### How it is funded:

All home insurance companies writing business in the UK will pay their share of an annual levy into the fund, equating to 2.2% of premium. This broadly reflects the existing cross-subsidy between lower and higher flood risks and will total £180m per annum.

This levy, along with Flood Re's premium income will be used to create a fund which will be used to cover flood claims for policies that insurers cede to Flood Re and purchase reinsurance.

### Who is included in the Flood Re scheme?

Flood Re will be publishing eligibility criteria in due course. It is expected to accept policies for between 200,000 and 500,000 properties. Broadly speaking, to be in-scope the property must:

- Have the policy in the name of individual
- Be allocated a council tax band
- Be residential
- Have an individual premium, and;
- Be occupied by owner or immediate family

### Out of scope

- Homes built after 2009
- Buy to let
- SMEs and leasehold properties (made up four or more residential units)

## Timescale

Flood Re required primary legislation from Parliament which was granted last year in the Water Act, enabling the scheme to be set up and to ensure all insurers authorised to write domestic property insurance in the UK paid a fair share of the levy.

The rules governing Flood Re have now been laid before Parliament and Flood Re is currently preparing their application to the Prudential Regulation Authority to be an approved reinsurer.

There is currently an intense amount of work taking place to establish Flood Re as an entity in the summer. From that point, it will start to rigorously test its systems, and how they work with the systems within the insurance industry.

The launch date for Flood Re is yet to be announced; however we expect this to be in early 2016.