

Committee on Climate Change
7 Holbein Place
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Brendan McCafferty
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Dear Brendan

Designing Flood Re to encourage flood risk reduction

On behalf of the Committee on Climate Change, I would like to offer my congratulations on your appointment as Flood Re's Chief Executive. I chair the CCC's Adaptation Sub-Committee, the Government's independent statutory advisor on preparing for climate change.


The Environment Agency's latest assessment suggests that even in the best case scenario there will be more homes at high flood risk in the coming decades than there are at present. Flood Re offers the opportunity to address this by achieving a step-change in the uptake of household flood protection and resilience measures over its lifetime. However, the scheme is not currently configured to achieve this. As a consequence, Flood Re's costs are higher than necessary at the expense of other households' insurance bills. Value for money is also poor, as the Government's impact assessment shows. This would be made worse if Band H households are included within the scheme, as the Government is now content to allow.

I understand it will be your role to justify the scheme's economy, efficiency and effectiveness to Parliament. In 2013, I wrote to the Environment Secretary with five ways to design Flood Re to promote flood alleviation, reduce its costs, and improve value for money. The suggestions are as relevant now as they were then.

1. **Build awareness of flood risk.** Flood Re will provide insurers with information about flood risk for their customers, and the temporary nature of the scheme, but there is no guarantee that insurers will pass this on. This should be made a requirement, as a condition of being able to cede policies to Flood Re. Many high risk households are currently unaware that they live on the floodplain.

2. **Encourage and support additional flood mitigation.** Ministers were clear in Parliament that Flood Re has a role to play in promoting flood risk reduction amongst high risk households. There are a range of options here but as yet no firm proposals. Helping policyholders to avoid flood damage will reduce the levy income needed over Flood Re's lifetime and improve value for money.
3. **Place flood risk reduction at the heart of Flood Re's transition plan.** Managing flood risk will always be the best and most sustainable way of securing affordable insurance in the long-term. As far as possible transition should be achieved by helping high risk homes become more resilient, so that they can access reasonable terms without Flood Re's help. Otherwise Flood Re just postpones the problem.
4. **Target the benefits more keenly.** Flood Re is set to subsidise many hundreds of thousands of households more than the estimated number that might struggle to afford cover in a free market. This makes Flood Re needlessly expensive, and renders the costs of Flood Re three times the economic benefits. There is a strong case to narrow the scheme at the earliest opportunity, to allow the levy to fall and improve value for money. Including Band H homes at this stage would be a retrograde step.
5. **Require insurers to retain some risk.** A small element of risk retention by insurers would help preserve incentives for claim costs to be managed. Some retention would also create a degree of risk-reflective pricing for households, to encourage those most at risk to act early. At present there is a risk that claim costs may spiral, as apart from a small excess Flood Re will compensate in full for any and all claims that are made.

My committee is due to report to Parliament in June with its first statutory assessment of the progress being made to prepare for climate change. Flood Re should form the centrepiece of a comprehensive, twenty-five year strategy that seeks to counter the increasing risk of flooding and reduce the number of households at high risk. I would welcome the opportunity to discuss these suggestions with you in more detail.



PROFESSOR LORD KREBS Kt FRS
Chairman, Adaptation Sub-Committee