Department for Environment Food & Rural Affairs

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Stella Creasy
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Dear Stella,

Flood Reinsurance Amendment Regulations: Changes to increase the uptake of property flood resilience

As you will be aware, England has recently experienced 3 named storms (Storms Dudley, Eunice and Franklin) between the 16 and 21 February 2022. The Government recognises the impact that the recent flooding incidents have had on householders and businesses and sympathises with those affected.

The storms resulted in the flooding of around 200 properties across England. However, our response and effective operation of flood defences – such as the Didsbury basin – helped to protect communities. Nearly 60,000 properties were issued with a flood warning. Around 700m of temporary barriers and 1km of demountable barriers have been deployed to protect communities. Our initial estimates are that about 40,000 properties were protected from flooding.

On 29 July 2021, Government announced a wide-ranging package of measures demonstrating our commitment to implementing the Flood and Coastal Erosion Risk Management Policy Statement, a year on from its publication in July 2020. As part of the announcement, we committed to make changes to the Flood Reinsurance Scheme (the Scheme) which promotes the availability and affordability of flood insurance for UK household premises at risk of flooding. These changes, which Government consulted on in Spring 2021, will improve the efficiency and effectiveness of the Scheme and increase the uptake of property flood resilience measures helping communities across the UK to become more resilient to the changing climate. Government also announced it will publish a roadmap at the end of 2022 that will identify the actions required across industry and Government to successfully grow and underpin the nascent Property Food Resilience market.

Government laid draft regulations in Parliament on 27 January implementing changes to the Scheme as described below with the intention of the regulations to come into force on 1 April, subject to Parliamentary approval. As you have previously expressed interest in flood insurance and property flood resilience, or some of your constituents have unfortunately been affected by flooding, I am writing to inform you of the changes.

Build back better

The Statutory Instrument laid in Parliament will allow Flood Re (the scheme administrator) to pay claims which include an amount of resilient repair (Build Back Better) up to a value of £10,000 above the cost of like-for-like reinstatement of actual flood damage. Flood Re will be requiring insurers choosing to participate in Build Back Better to offer it across their home insurance offerings, rather than just on insurance policies ceded to Flood Re to drive a cultural shift across the market, ensuring consistency and fairness for all customers. Flood Re will work with insurance companies to capture and contribute data and insight to assist the development of an evidence base on the impact of the policy and property flood resilience, which is vital to support the transition to a risk reflective insurance market when the Scheme ends in 2039. Flood Re will also encourage insurers to meet best practise when implementing Build Back Better so that installations adhere to industry standards.

Levy 1

Levy 1 is Flood Re's primary income, raised from UK household insurers based on their market share. The statutory instrument will allow Flood Re to propose a new levy amount every three years instead of every five, in accordance with the Government's assurance process, and will amend the figure for the levy from £180M to £135M for the three-year period from 1 April 2022. Any future revisions to the levy amount will be subject to parliamentary approval. This will allow Flood Re to obtain better value for money in purchasing reinsurance, to be more dynamic to their needs and potentially changing risk profile and ensure the total levy (a form of tax) is not higher than it needs to be.

Liability Limit

The liability limit sets the maximum amount of claims Flood Re is liable to pay to insurers in any one financial year. The Statutory Instrument will allow Flood Re to set the Liability Limit every three years instead of every five, aligning it with the new levy setting cycle in accordance with the Government's assurance process. This will afford Flood Re greater flexibility to respond to the Scheme's changing income needs and risk profile.

Surplus funds at scheme wind up

The Statutory Instrument will clarify that Levy 1 funds will be returned to Government when the Scheme ends, in line with the agreed position between Defra and Flood Re. This is not a change of policy but is a clarification.

REBECCA POW MP