OUR VISION:

Securing a future of affordable flood insurance
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ABOUT FLOOD RE

The Flood Re Scheme is a joint initiative between the UK insurance industry and the UK Government. The Scheme was established by the Water Act 2014.

Flood Re’s purpose is to promote the availability and affordability of household insurance for eligible homes, whilst minimising the costs of doing so. It must also manage, over its lifetime, the transition to risk reflective pricing for household insurance for those households at risk of flooding.

Flood Re is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and Financial Conduct Authority (FRN 706046).

ABOUT THIS REPORT

Flood Re is a temporary scheme and by 2039 it will have exited the market. Flood Re believes that, after this time, an affordable market for household insurance for those at risk of flooding should continue to exist. Managing its own transition is part of Flood Re’s statutory purpose and as one component of this, it publishes a transition plan at least every five years. These outline the actions that Flood Re and others will need to take, to make the transition to an affordable and risk-reflective market for household insurance, more achievable. This report is Flood Re’s second transition plan.

FURTHER INFORMATION

For further details about this publication or Flood Re, please visit www.floodre.co.uk.
Our vision: Securing a future of affordable flood insurance

BEFORE

5.3m
UK households are at risk of flooding

£20k - £45k
typical cost for fully repairing a flooded home

90%
market offer Flood Re

150,000 policies written in 2018

9%
of households who had made previous flood claims could get quotes from 2 or more insurers

0%
could get quotes from 5 or more insurers

Four out of five households saw more than 50% price reduction

DURING

Flood Re

100%
could get quotes from 2 insurers

74%
of households who had made previous flood claims could get quotes from 10 or more insurers

AFTER

Reduction in risk of flooding

Investing in flood risk management and defences
Development with flood risk in mind

Reducing the damage and costs of flooding

Improving property flood resilience and resistance products
Improving the operation of community flood resistance and resilience
Increasing the overall flood resilience and resistance of the UK’s housing stock
Reducing the cost of reinstatement

Achieving an effective market

Improving flood modelling
A smooth Flood Re exit
Improving consumer information on flooding and the value of insurance
Active engagement in the market

The limits of affordability
- Continued support for those with unavoidably high level of flood risk
- Minimising the size of the highest risk group

www.floodre.co.uk
Flood Re is able to subsidise premiums and excesses to improve the availability and affordability of flood cover to householders in high flood risk areas thanks to a levy paid by the insurance industry. This is not, however, a permanent solution. Indeed, Flood Re has a finite life and its role will cease in 2039.

A crucial part of the thinking behind Flood Re was to mandate it to manage the transition back to risk-reflective pricing. In our first transition plan, we said that meant that after 2039 premiums and excesses should, as well as being risk-reflective, remain affordable without the benefit of the levy.

For this to happen, we need to tackle together the factors that drive up the costs of flooding and flood cover. More effective flood risk management will reduce the frequency and severity of flooding. Insurers’ support for homes to be more resilient to flooding, and better and cheaper reinstatement will reduce the costs when flooding happens. Householders too will need to act to make their homes and communities more resilient and so reduce the risk of flooding and the costs of repair.

Flood Re will play a key role in this. Since we published our first transition plan, we have provided support in all of these areas. We are using our growing expertise in flood risk modeling in support of the Environment Agency’s investment strategy. We have sponsored research by the University of the West of England into the effectiveness of property flood resilience (PFR). In conjunction with the Social Market Foundation and Populus, we have analysed the barriers to the adoption of PFR. Our Local Heroes Campaign shone a spotlight on the role that communities and individuals play in tackling flooding. This is the start of over two decades of work to return to affordable, risk-reflective pricing.

This, our second, plan builds on and builds out from our initial work; reflecting on the insights gained from our first two years of operation. It sets out our vision for cutting the cost of flooding, establishes the principles we will use to decide where we make our contribution and sets out our views on areas where Flood Re takes the lead and where we act in support of others.

This is a shared endeavour. Governments and their agencies, insurers, households and, of course, Flood Re all need to play their role. It is only by acting together that we can bring about change.

This will require difficult choices. Future government spending commitments on flood defence spending will have a material impact on the likelihood of a return to affordable, risk reflective pricing by 2039. A limited take-up of PFR will increase the risk that households will continue to face the human and financial costs of flooding. Without improvements to the reinstatement of flooded properties, families can still expect to be out of their homes for an extended period of time with insurers footing the bill. We also acknowledge that it might not be possible to reduce those costs of flooding for homes at the very highest risk. At Flood Re, we will need to prioritise our spending and advocacy work to maximize the impact we have.

At the same time, the increasing severity and unpredictability of weather patterns, the potentially adverse impact of new building development, the growing cost of claims and climate change all drive the cost of flooding higher. This should spur all of us to act.

The Flood Re team is looking forward to maintaining and developing its work with key partners to ensure that the material reductions in premiums and excesses in high flood risk areas are sustainable long after 2039.

Mark Hoban
Chairman
Flood Re is a world first collaboration between the Government and the Insurance Industry to ensure that everyone in the UK can get affordable insurance to protect them from the financial consequences of flooding. But it was always intended to have a limited life span of 25 years. Flood Re’s existence gives the country the opportunity to adapt to the changing challenges of flooding in the 21st century so that a risk reflective, but still affordable, market can once again operate without the need for Government intervention.

This document is an important milestone on that journey. It sets out Flood Re’s vision for what needs to exist for flood cover to be both risk reflective and affordable. It looks at how public bodies, the insurance industry and householders need to change and adapt. It outlines a set of principles to guide Flood Re’s own actions and interventions to support this vision in the coming years and finally articulates the immediate next steps.

However, it is not just Flood Re that will have an influence on this agenda. Many things will change between now and 2039. In addition to the aspirations set out in this document, there are competing demands which may exert counter pressures. For example, climate change will continue to increase the risk of flood. The UK also faces a desperate need to build more homes and reduce housing costs which, if not carefully managed, could further increase the risks of flooding.

If we, as a country, do nothing, then the situation will not remain static but deteriorate over the next 25 years. This makes Flood Re’s mission to create an affordable risk reflective market even more relevant and urgent.

Context

Flooding can have devastating emotional, financial and practical impacts on families and communities. Most obvious is the damage caused to property and personal possessions, but this is often dwarfed by the psychological impacts of water and sewage entering the family home, the fear it might happen again and the disruption of having to be rehoused while the property is decontaminated, dried out and repaired.

Insurance plays an important role in providing peace of mind and in helping to reduce the financial cost to households if a flooding event does occur. However too many households, particularly those who have been previously flooded, have struggled to access affordable household insurance: in 2016 only 9% of householders who had made previous flood claims could get quotes from two or more insurers, with none being able to get quotes from five or more. Increases in premiums after a flood event can also be several hundred percent. The importance of flood insurance nationally is also likely to increase, as climate change and new housing developments change the profile of flood risk.

Flood Re was established by the 2014 Water Act and started operation in 2016, to improve the availability and affordability of household insurance for people who live in high flood risk areas. It enables insurers to cede policies to the scheme, for which they pay Flood Re a below-market rate premium – meaning the insurer can offer the household a lower price. Flood Re then ultimately covers the ceded property in the event of a flood.
Well over 60 insurers are now signed up to the scheme, covering 90% of the home insurance market and more than 150,000 policies are ceded to the scheme. Independent research in January 2018, showed that following the introduction of the scheme, four out of five householders with a prior flood claim saw price reductions of more than 50% and 100% of these households could get quotes from at least two insurers. Nearly three in four of these could choose from at least 10 insurers.

This highlights that, in just two years, Flood Re has managed to ensure that householders at risk of flooding have access to affordable household insurance. However, the subsidy required to deliver this cannot continue forever. The scheme was always intended to be time limited and by 2039, Flood Re will have exited the market. When that happens, it is necessary that a market is in existence that is based both on risk-reflective pricing of household insurance and is affordable and available for households at risk of flooding. Flood Re’s approach to ensuring that this happens, is set out through a series of documents known as transition plans. The first of these was published in 2016.

This update to the transition plan, sets out:

- **A vision and ambition** for the post-Flood Re household insurance market;
- **The action taken to date** in moving towards this vision; and
- **The action Flood Re will take in the coming years**, both directly and indirectly, to make the vision a reality.

### Flood Re’s vision and ambition

Flood Re’s overarching vision is a market for household insurance where, by 2039, the vast majority of households at risk of flooding have access to insurance that is viewed as affordable, without the need for Flood Re. By implication, this vision reaches further than simply ensuring affordability for those 150,000 properties with policies currently ceded to Flood Re. Whilst Flood Re provides vital support to these households, successful transition requires that affordable household insurance is also available to all households who are at risk of flooding in 2039, but have never had, or no longer have, policies ceded to the scheme. If this were not the case, a strong argument for the continuation of Flood Re could be made.

Overall, as outlined in the first transition plan, successfully delivering this will rest on the extent to which, all else being equal, the costs of providing household insurance for those at risk of flooding falls between now and 2039. For any given level of flood risk and scale of flooding, the largest drivers of these costs are the extent of the damage and the length of time it takes to decontaminate, dry-out and repair the property. This means that reducing the costs requires that the damage and / or time involved are brought down. There are three key ways in which this can be achieved:

- Limiting the risks of flooding;
- Reducing the damage caused by and costs associated with flooding; and
- Ensuring that an effective market for household insurance exists.

Doing so will mean lower premiums for many at-risk households and box 1 outlines Flood Re’s vision for achieving this by 2039. This should not be seen as a plan of action for Flood Re alone; it is clear that Flood Re holds relatively few direct levers to achieve these goals. Instead, the responsibility for taking action lies across many individuals, groups, levels of Government and different departments.
VISION:
Limiting the risks of flooding
1. Investing in flood risk management and defences: Informed by improved flood modelling, national and local governments continue to invest in improved flood risk management strategies and flood defences.

2. Development with flood risk in mind: New developments (including both residential and commercial properties and more broadly, changes to the whole built environment) do not raise the overall risk of flooding for communities around them and the nation as a whole. Where appropriate, properties built in at-risk areas are developed in such a way that this risk is mitigated.

VISION:
Reducing the damage and costs of flooding
3. Improving property flood resilience and resistance products: A well understood and accredited range of high quality flood resilience and resistance measures are available to households across the UK.

4. Increasing the overall flood resistance and resilience of the UK’s housing stock: Ensuring that community and property-level resilience and resistance measures are installed and used where it is cost-effective to do so:

a. Where households have been flooded, they are supported by Government, Flood Re and the insurance industry to “build back better” with appropriate resilience and resistance measures;

b. Households at risk of flooding are supported to understand the action they can take to improve resilience and resistance and are supported to act where this would benefit them; and

c. Knowledge and understanding of the benefits of resilience and resistance measures are better understood by those engaged in development, (e.g. surveyors, trades, loss adjusters). New and redeveloped / renovated residential properties are constructed with sufficient resilience and resistance measures installed.
5. **Improving the operation of community flood resistance and resilience.** Communities and households at risk of flooding develop plans for the onset of flooding and take appropriate action to reduce the risk of flooding and potential extent of damage, once warnings are issued (for instance by mounting removable flood gates and moving valuable belongings to higher floors). Reliable, accurate and trusted sources of information on flood risks and flood events develop so that individuals and communities have the information they need to take action.

6. **Reducing the cost of reinstatement:** Improved claims management, the sharing of best practice and innovation and technological advances in the reinstatement process mean that the average cost of reinstatement comes down over time.

**VISION:**

**Achieving an effective market**

7. **Improving flood modelling:** The quality and precision of openly available data on UK flooding continues to improve. This also continues to be fed into insurers’ approaches to flood mapping to ensure that they are able to price insurance products based on the underlying flood risk profile (rather than simply experience of a claim). Positive action that households and communities have taken is recognised in assessments of flood risk and priced into insurance products. Modelling is constantly updated based on most recent information. Data and mapping is used to help householders understand the risks that they face.

8. **A smooth Flood Re exit:** In 2039, Flood Re is wound down and exits the market. This is managed to ensure that a cliff edge is not introduced into the market and that at-risk households understand in advance the likely impact on their future bills and the action they can take to mitigate any potential impacts.

9. **Improving consumer information on flooding and the value of insurance:** Householders understand the flood risk associated with their property and steps that they can take to reduce this risk. They also understand the role that insurance can play in protecting them when flooding occurs and the value that this provides.

10. **Active engagement in the market:** Households at risk of flooding have the information and capability they need to shop around for the best value for money household insurance policy.
Whilst delivering this vision would mean an affordable market for household insurance for the majority of householders at risk of flooding, it is also clear that, for some householders at the very greatest risk of flooding, the investment needed to reduce risks and costs would be uneconomic. This means that, even with a successful transition, there will be a number of households where insurance is likely to be viewed as unaffordable once Flood Re has been wound down. To tackle this, policymakers will need to decide whether some form of support continues for these households once a risk-reflective market is in place and, if so, develop a strategy for doing this.

VISION:
The limits of affordability

11. **Those with unavoidably high levels of flood risk:** If some form of support is to continue, policymakers develop a strategy to ensure that the number of properties at the very highest unavoidable risk of flooding have access to and take up affordable household insurance.

12. **Minimising the size of the highest-risk group:** The size of this potential group is actively monitored and a strategy is in place to minimise its size by 2039.
The action taken to date

Flood Re has already taken significant steps to support this vision. This can be seen in both the direct action that Flood Re has taken in its day-to-day role as a household flood reinsurer and in the role that it is playing in supporting the development of better understanding and practical action by others. In particular, as well as supporting the provision of an affordable market for household insurance for those properties currently at risk of flooding, Flood Re has taken action to:

- Raise awareness of the scheme and the importance of insurance, including through roundtables, roadshows and media engagement in at-risk areas across the UK;
- Help society better understand the nature and scale of flood risks and what they can do to mitigate them. This included both high profile projects like the Flood Re “Local Heroes” award as well as undertaking work in-house and commissioning independent research from the University of the West of England, Populus and the Social Market Foundation (SMF); and
- Engage with the insurance industry, parliamentarians, academics, flood experts, local flood groups and international stakeholders to build internal expertise and understanding, as well as to spread knowledge of the Flood Re scheme and the actions needed to ensure that Flood Re’s vision is achieved by 2039.

Action in each of these areas has been instrumental, both in ensuring that the first two years of Flood Re’s operation have been successful and in helping others to understand the role they will need to play, to secure the long-term viability of an affordable household insurance for those at risk of flooding.

The action Flood Re will take in the coming years

In taking forward action to secure the sustainability of affordable household insurance for those households at risk of flooding, Flood Re has a wide range of options available to it and external commentators have already argued for many forms of intervention. With competing choices available and future calls for further action inevitable, Flood Re will have to choose the most appropriate course of action. This document outlines that choices will be made on the basis of the principles of additionality, expertise, impact, sustainability, and partnership. These are summarised in box 2.
1. **Additionality**

In many of the areas where change is needed, significant bodies of work are already underway. For example, all the UK’s environment agencies, the Committee on Climate Change, Defra, devolved governments and local authorities are already engaged in detailed bodies of work on the appropriate scale and nature of future flood defence investment. There are also individuals and groups exploring how changes to building regulations could support increased flood resilience and how industries can work together to certify and standardise the approach to resilient repair.

In taking forward its work, Flood Re will seek to engage in activities that are additive or complementary to the work that others are already undertaking. It will seek out and identify gaps in existing knowledge and action and develop a view on how it can contribute to filling these gaps.

2. **Expertise**

Flood Re will engage in work where it has the necessary expertise to contribute meaningfully. Where work is identified that requires expertise that Flood Re does not have, it will identify those who are well placed to undertake this work. In some cases, where the work fits with Flood Re’s other principles, it could commission this work from the relevant parties. Where this does not happen, it will engage with others to make the case for the work needed and demonstrate the value it could provide to delivering Flood Re’s objectives.

3. **Impact**

Flood Re will seek to maximise the impact of the action it takes. Evidence and testing will be used to ensure that the scale of action Flood Re takes is proportionate to the potential benefit delivered by the activity in terms of ensuring the affordability and availability of household flood insurance both now and in the future.
4. Sustainability

Flood Re will engage in work that promotes the sustainability of a risk-reflective and affordable market for household insurance. This means focussing on actions that both support the transition up to 2039 and create the conditions for an affordable market to continue to exist after 2039.

A key part of this will be to ensure the maintenance of a competitive market for household insurance. For this reason, where Flood Re is undertaking or commissioning work, it will prioritise activities that actively support and do not inhibit, competition in the market.

5. Partnership

Flood Re has few direct policy levers. As such, in many circumstances, Flood Re’s primary role will be in supporting, facilitating and promoting the actions of others. This means that, where there is a case for action, Flood Re will consider how it could partner with local and national organisations and individuals to take this work forward, before considering taking direct action itself.

Bringing these principles together shows that, where there is a case for action, Flood Re has a choice over the nature of its intervention (whether direct action or a supporting role) and the scale of intervention (in terms of the resource it dedicates to the intervention). To understand what this might mean in practice, each area of the vision has been matched to either a supporting or active role. Whilst these might change as the market and Flood Re changes over time, this demonstrates that if Flood Re’s vision is to be achieved, many other individuals, groups, levels of government and different departments, will need to take action. Figure 1 provides an overview and more detail can be found in the main body of the report.
FIGURE 1: FLOOD RE ROLES RELATING TO ITS 2039 VISION

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<th>Flood Re will play a supporting role in relation to...</th>
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<td>• Those with unavoidably high levels of flood risk</td>
<td>• Enabling community flood resistance and resilience</td>
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As well as setting out principles for how Flood Re will decide on future work, a range of activities over the course of the next three to five years can already be committed to. These have been guided by these principles and informed by discussions with a range of stakeholders including flood experts, the insurance industry and academics. These are highlighted below:

**Continuing with work already underway:** Flood Re has already begun to take practical steps to prepare for a future of affordable household insurance for householders at risk of flooding. Section 2 outlined a range of activities undertaken in the last two years which are already having a tangible impact. Flood Re will continue to take forward work in all these areas.

**Developing the role of Flood Re:** Between now and the set timescale, Flood Re will undertake work to develop and publish a view on Flood Re’s role in a number of areas that are key to delivering the vision by 2039. This will include:

- How Flood Re can support the development of improved flood mapping to inform improvements in risk-reflective pricing and decisions over flood defence investment;
- Flood Re’s role in making the case for changes to building regulations and planning rules to improve the flood resilience of existing and new housing in the UK;
- Understanding the range of options that might be available to support those properties at greatest risk of flooding post 2039; and
- An exploration of how Flood Re could widen its investment strategy to support achieving a successful transition. To investigate what, if anything, Flood Re could and should fund with any capital that is beyond what is required for prudential operation of the scheme.
Increasing resilience through resilient repair: Flood Re’s response to the SMF work on incentivising household action highlighted the important role that “build back better” could play. Flood Re’s quinquennial review will examine how Flood Re might support this approach. Flood Re will also continue to build the evidence base and work with the insurance industry, Government and the range of associated trades to do so.

Building social capital and strengthening communities. Experience to date and the evidence provided in a range of research demonstrates that community infrastructure and capacity is crucial for resilience at both community and household level. In the time up to the next update of the transition plan, Flood Re will undertake a range of projects in this area, for example, consideration will be given to:

- Working with the right partner to provide the digital platforms and tools required by flood groups to enable mutual support, peer-to-peer mentoring, sharing of best practice, development of new groups, co-ordination and learning. This will draw on the experience of other successful social platforms like Mumsnet, Mush and Bubble; and
- Developing and running a national, or series of local events, bringing together flood community leaders.

Incentivising action from households: Flood Re will undertake testing of how householders’ understanding of flood risk and the benefits of Property Flood Resilience might be improved. This will include work to:

- Understand and test the most effective ways in which information about flooding (including flood risk) can be communicated; and
- Undertake further work, building on the work of the Social Market Foundation, to develop a blueprint for and scope the feasibility of, the introduction of Flood Performance Certificates in the UK.

Figure 2 provides an outline timeline and Flood Re will report back regularly, including through:

- A twice-yearly meeting of the insurers’ forum on transition, which has already been established;
- A twice-yearly meeting of the consultative group of stakeholders that has already been established;
- Ad hoc events and meetings when new or updated work is published;
- Annual reporting through Flood Re’s Annual report; and
- The next update to the Flood Re transition plan before 2023.
Conclusion

Taking this work forward will provide further steps to ensuring that Flood Re’s exit leaves behind a market for household insurance that is both risk-reflective and affordable for householders at risk of flooding. However, to be sure of success, Flood Re relies on the action of many other parties, including the UK Government and devolved and local governments and flood agencies and partners in a range of industries and trades. Flood Re will play an active role in collaborating, informing and partnering in this work. By working together in this way, the vision of a household insurance market where the vast majority of householders at risk of flooding have access to affordable household insurance, is a realistic and achievable goal by 2039.
INTRODUCTION
Since 2016, Flood Re has been supporting the UK’s household insurance market to provide affordable insurance policies to those householders at significant risk of flooding. Without Flood Re, many households at risk of flooding would struggle to afford to insure their properties.

However, Flood Re is only a temporary scheme, put in place until 2039 to support the insurance industry, households and Government to develop a risk-reflective market. This document outlines Flood Re’s vision for how this could happen; the steps that will need to be taken to reach this situation; and what Flood Re will do to support this.

Ensuring this happens will be challenging. Many things will change between now and 2039. In addition to the aspirations set out in this document, there are competing demands which may exert a counter pressure. For example, climate change will continue to put upward pressure on flood risk. The UK also faces a desperate need to build more homes and reduce housing costs which, if not carefully managed, could bring risks of flooding. If we, as a country, do nothing, then the situation will not remain static but will deteriorate over the next 25 years.

This means that Flood Re’s approach, the emphasis placed on specific parts of its strategy and the actions we believe are required from others, will evolve and adapt over time. However, it is essential to take steps now if Flood Re’s goals are to be achieved by 2039. Failure to do so would mean being faced with a situation where household insurance for those at risk of flooding again becomes unaffordable; causing anxiety for householders at risk and leaving some households devastated by flooding with no financial support when flood events occur. As such, this update to the first transition plan outlines the immediate steps Flood Re will take on its long journey to transitioning the market to become affordable and risk reflective.

Flooding and flood insurance in the UK

Since the launch of Flood Re and the publication of the first transition plan, the UK has enjoyed a relatively benign period of weather. This has meant that, while flooding has occurred in some areas of the country, the UK has not seen large scale flood events like those experienced in years including 2007, 2012, 2013/14 and 2015/16.

However, it would be wrong to be complacent. Whilst comparatively recent flood events have been relatively small scale, Flood Re staff have visited areas affected by severe flooding and heard first-hand about the devastating emotional, financial and practical impacts it can have on families and communities.

It is also impossible to use recent experience to predict the future; the most significant flood event in recent history (summer 2007) came after two years of below average flood-related claims. The 2007 floods led to almost 43,000 flood-related domestic insurance claims (see figure 3) with damaging impacts on individuals, families, communities and the economy.
As such, whilst predictions of the time and location cannot be made, there is no doubt that the UK will experience more significant flood events in the future. For England, this is highlighted by the Environment Agency’s estimate that some 3.5 million English householders are at risk of flooding, with one in twelve of these deemed to be at high risk.

A combination of climate change, continued development of property in flood-prone areas and wider changes to the built and natural environment, mean that these risks are also likely to change in nature and increase over time. Estimates of the impact of this vary, but one report suggests that some 45,000 more homes could be at high risk of flooding by 2060.

Furthermore, all properties in the UK are exposed to at least some degree of flood risk. Householders can be threatened by the sea, rivers and surface and ground water flooding. Experience of previous flood events demonstrates that even those with a relatively low perceived risk of flooding can be severely affected. For example, two thirds of those flooded in 2007 were not previously recognised to be at high risk.
Ultimately this means that, whilst the risks vary across the country, flooding is a social and economic issue facing the whole of the UK. When floods happen, the costs to individuals, families, communities and even whole regions can be substantial. The most obvious of these are the risk of injury or death and the financial cost of cleaning, drying out and repairing affected properties. However, there are much wider impacts that can be devastating for those involved. These include the disruption of living in temporary accommodation whilst repairs take place, the psychological impact of water and sewage entering the family home and the damage to and loss of sentimental belongings that can never be replaced. Box 3 provides a recent example.

Insurance has a clear role to play in mitigating the costs associated with the impact of flooding. For all householders, the presence of insurance can provide reassurance that, should flooding occur, support will be available. For those that are flooded, insurers provide financial and practical support to ensure that properties are reinstated and that families can return to their properties as quickly as possible.

However, when left to the free market, those at significant risk of flooding can face both a poor choice of insurance providers and prohibitively expensive premiums together with large excesses. For example, in the UK, prior to 2016, fewer than one in ten householders who had made previous flood claims could get quotes from two or more insurers, with none being able to get quotes from five or more. Flood Re’s first transition plan also highlighted that, whilst average premiums have been falling for a number of years, those at the most significant risk of flooding can face premiums of thousands of pounds a year and excesses of £5,000 or more per claim. Faced with such high premiums and excesses, householders may be forced to underinsure, or simply not insure at all, leaving themselves open to significant financial losses and emotional strain when flooding happens. This has been shown to be particularly problematic in low income and vulnerable households.

This challenge is not just confined to the UK and has led to countries around the world developing a range of interventions to ensure that those at risk of flooding have access to insurance that they can afford. In the UK, the insurance industry developed a Statement of Principles that lasted until 2016 and ensured that flood cover continued to be included as a standard part of household insurance policies. However, the Statement of Principles became unsustainable in the long term and so Flood Re was developed as a world first, not-for-profit scheme. A joint initiative of the UK Government and insurance industry, Flood Re was designed to ensure UK householders who live in flood risk areas are still able to find affordable home insurance.
On Saturday 9th June 2012, 150 people were rescued and 1,000 evacuated after a month’s worth of rain fell on mid-Wales in 24 hours, causing the rivers Leri and Ceulan to burst their banks on the surrounding villages.

In Talybont (Ceredigion, Wales) Mick and Jenny Fothergill had been enjoying life in their family home of over 40 years when they were struck by these floods. Living next door to both the River Leri and the River Ceulan, the couple believed they had seen the rivers in all its moods before their lives were changed forever.

Having witnessed the river in an angry state before, Mick explains how he and his family escaped in the nick of time:

“It had been raining heavily for days, but on top of the saturated land and swollen river we experienced a pulse of rain that delivered 200mm in 24 hours directly into our catchment. Our river system simply could not hold this amount of water, and in the early hours of the morning a huge wave surged through the house. “We managed to escape out of the ground floor window as the water quickly became thigh-deep.

We were evacuated to the local village hall and came to discover that 28 properties in the village had also been flooded that night, but our house had taken the full force. We had 7ft of flood water coursing through the house, and we were felt the devastation of losing everything from the seven rooms of our ground floor containing a lifetime of our family possessions and memories.”
The Flood Re scheme

Flood Re is a reinsurance scheme that was established by the Water Act 2014 and began formal operation in April 2016. It indirectly supports householders at risk of flooding to have access to affordable household flood insurance by providing a reinsurance facility that allows insurers to cede policies to the scheme for a fixed-price premium (the inwards reinsurance premium). This is set with reference to Premium Thresholds, which vary by the Council Tax band of the property. Flood claims on the ceded policy come with a fixed excess of £250 per claim. Figure 4 provides details of the 2017/18 inward reinsurance premiums for properties ceded to the Flood Re scheme, which were frozen in nominal terms this year.

FIGURE 4: FLOOD RE PREMIUM 2018

<table>
<thead>
<tr>
<th>Council tax band</th>
<th>A,B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>England and Scotland</td>
<td>A,B</td>
<td>C</td>
<td>D</td>
<td>E</td>
<td>F</td>
<td>G</td>
<td>H</td>
</tr>
<tr>
<td>Wales</td>
<td>A,B,C</td>
<td>D</td>
<td>E</td>
<td>F</td>
<td>G</td>
<td>H</td>
<td>I</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>1,2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
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<td>£339</td>
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<td>£406</td>
</tr>
<tr>
<td>Combined policy</td>
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<td>£249</td>
<td>£279</td>
<td>£335</td>
<td>£414</td>
<td>£548</td>
<td>£1218</td>
</tr>
</tbody>
</table>

Source: Flood Re
These Premiums are set below the prices at which insurance would be available to households at high risk of flooding. They are set with reference to the property’s Council Tax band as a proxy to reflect the householder’s ability to pay, rather than reflecting the risk faced by the property. Whilst Flood Re does not deal directly with householders themselves, this allows insurers to pass these lower costs onto their customers. Figure 5 provides a graphical outline of how the Flood Re scheme functions.

Overall, this provides a significant subsidy to the insurance costs of households who have their properties ceded to the Flood Re scheme. This subsidy is funded through a levy (known as Levy I) on the insurance industry, which contributes £180 million a year to the scheme. Flood Re is capitalised to a level that ensures it is resilient to losses resulting from a flood event larger than that seen in the UK for the last 100 years, should it be necessary. The Scheme can also issue a compulsory call for extra funding (known as Levy II) from the insurance industry.
The impact of Flood Re

Section 2 of this report provides more detail on the work Flood Re has undertaken over its first two years of operation. However, it is already clear that it is having a positive impact on the affordability and availability of insurance for householders at risk of flooding.

Well over 60 insurers are now signed up to the scheme, covering 90% of the home insurance market. Across the country some 150,000 policies have been ceded to the scheme since it was established.

The cost and availability of insurance for those with previous flood claims has also improved dramatically. Independent research in January 2018 showed that four out of five householders with a prior flood claim saw price reductions of more than 50% following the introduction of the Flood Re scheme and 100% of households with previous flood claims could get quotes from at least two insurers. Nearly three in four of these could choose from at least 10 insurers. This compares to a situation in 2016 where only 9% of householders who had made previous flood claims could get quotes from two or more insurers, with none being able to get quotes from five or more.
Before the flooding, the Fothergills’ house and contents insurance was in the region of £400 with a £200 excess. Immediately following the flood, their costs tripled to £1,200 with a £7,000 excess, and by 2015, their insurance had risen to £3,500. Mick Fothergill described the situation:

“As a retired couple, the rising costs put a huge strain on our resources, but in the meantime Flood Re had been negotiated, which gave us considerable hope after a very traumatic time. Thanks to shopping around to find an insurer that could offer the scheme, our insurance dropped considerably to £500 with a modest excess. The relief was indescribable.”
Delivering a public purpose in the long term

This demonstrates that Flood Re is already delivering on its purpose of opening up the home insurance market for people living with previous flood claims. However, Flood Re is not just about delivering affordability and availability today; it will only be successful if more affordable cover is maintained over decades and not just a few years.

This is why Flood Re also has a longer-term statutory objective to manage its own transition when the time comes in 2039 and before then to understand and encourage the conditions necessary for that to happen without introducing a ‘cliff edge’ or potentially negative impacts on householders.

The first transition plan outlined clear reasons to do so:

- The scheme relies on a cross subsidy from those households with little risk of flooding to ensure affordability for those who are at higher risk. Transition will remove that cross subsidy; and
- As with the majority of areas where public policy goals are delivered through interventions in a market, the presence of the scheme could lead to unintended consequences. For example, it could reduce the incentives for householders to invest in action to protect themselves from the risks and costs of flooding. Successful transition will minimise the impact of these negative incentive effects.

This report builds on the first transition plan to outline Flood Re’s vision, both for what successful transition would look like and how this might be realistically achieved.
Transition without affordability is not success

Flood Re’s statutory objective regarding transition is to support the UK’s household insurance market to a situation where risk-reflective pricing for properties at risk of flooding is used by 2039. However, the first transition plan highlighted that there are a number of ways in which this could be achieved that would not be compatible with Flood Re’s primary objective of improving the affordability of insurance for those households at highest risk.

In fact, transition to an accurate risk-reflective pricing model across the market is likely to increase affordability pressures for many at-risk households. This is because, as flood modelling improves, insurers are more able to assess the risks and costs associated with individual properties and vary their pricing strategy accordingly. For those at greatest risk, this could lead to significant increases in premiums and excesses, even compared to the situation before Flood Re existed.

...by 2039, a market for household flood insurance should exist where the vast majority of households have access to flood insurance that is viewed as affordable, without the need for Flood Re.

For this reason, the first transition plan committed Flood Re to seeking to ensure that by 2039, a situation is reached where risk-reflective pricing is compatible with affordable home insurance cover for those in flood-prone parts of the country. This commitment necessarily raises the question of what Flood Re views as affordability. This is considered in box 5.
The extent to which any market would be classed as affordable for customers within it will depend on a range of factors including the cost and perceived value of the product or service; societal and individual views on whether the product is a necessity or a luxury item; and the evolution of incomes and living standards across society. This means that concepts of affordability may well change between now and 2039. It also suggests that the question of affordability is, ultimately, a political one, which will be made by the Government of the day and informed by the experiences and views of their constituents (both those with high risks of flooding and those with relatively low risks of flooding).

However, in order to understand the scale of action that Flood Re and others need to undertake to achieve its vision, it is important to outline what Flood Re understands as affordable. For the purposes of understanding this, Flood Re have chosen to use a rule of thumb which states that an affordable market will be in place in 2039, if Flood Re can exit the market without:

1. Household insurance premiums and excesses for the majority of at-risk properties significantly increasing; and
2. The penetration of household insurance reducing significantly in flood risk areas.

This would mean that, after 2039, the majority of households have access to flood insurance on similar terms to those which were available when Flood Re existed. Since Flood Re is tasked with supporting the delivery of an available and affordable household insurance market up to 2039, this would suggest that affordability is maintained after Flood Re has exited the market.
A vision for the future

Flood Re’s overarching vision is for a market for household insurance where, by 2039, the vast majority of householders at risk of flooding have access to household insurance that is viewed as affordable, without the need for Flood Re.

By implication, this vision reaches further than simply ensuring affordability for those 150,000 properties with policies currently ceded to Flood Re. Whilst Flood Re provides vital support to these householders, successful transition requires that affordable household insurance is also available to both:

1. Those householders that would be eligible, but who do not currently have a property ceded to the scheme. This includes both householders that have insurance cover provided outside of the scheme and those householders who are not insured; and

2. Those properties not currently eligible for support from the Flood Re scheme. These include properties built after 2009 and significant proportions of those in the private and social rented sectors. Again, some of these householders will also be uninsured.

There are a number of reasons for this, including that:

- It is not possible to predict which properties will be ceded to the scheme by 2039. Insurers decide which properties to cede based on their assessment of flood risk. This means that, as understanding of flood risk improves and the nature of risk changes, properties with policies not currently ceded to the scheme may become ceded;
- If, as a result of changes to the natural and built environment, the level of flood risk increases, many more policies may be ceded to the scheme in future; and
- Changes in insurers’ ability to adopt risk-reflective pricing will impact on the premiums and excesses available for all properties at risk of flooding, not just those eligible for support through the scheme.

This means that focussing just on those with policies currently ceded to the scheme would mean failing to consider a large number of householders who could be impacted directly or indirectly in the future. As such, failing to consider them could reduce the likelihood of Flood Re achieving its transition objective. Instead, Flood Re’s approach to transition must consider the future availability and affordability of household insurance for all householders at risk of flooding and those who may become at risk of flooding in future (see figure 6).
What would this mean?

Developing a market for affordable household insurance, based on risk-reflective pricing of flood risk, after Flood Re has been wound down will rest on two objectives:

1. **Moving to a market with risk-reflective pricing.**
   By 2039, insurers across the market should be pricing household insurance based on a better understanding of the flood risk associated with individual properties; and

2. **Ensuring that insurance premiums and excesses based on risk-reflective pricing are affordable for householders at risk of flooding.**
   When Flood Re is wound down and a market with risk-reflective pricing of flood risk exists in 2039, this should provide access to affordable household insurance for the vast majority of UK householders.

Both of these objectives represent a significant challenge. There is also a tension between them; as without other action, when the market moves towards risk-reflective pricing, those householders at risk of flooding will begin to see the cost of their insurance policies rise. As such, delivering simultaneously on both of these objectives over the next 21 years will require action from a wide range of individuals, organisations and policymakers in both UK, national and local government.

Flood Re’s role is to manage its own transition when the time comes in 2039 and before then, to understand and encourage the conditions necessary for that to happen, without introducing a ‘cliff edge’ or potentially negative impacts on householders.
SECTION 1:

OUR VISION FOR AFFORDABLE HOUSEHOLD INSURANCE FOR THOSE AT RISK OF FLOODING
In many respects, achieving the transition to a market with risk-reflective pricing is going to be the more straightforward task; flood modelling is already improving and innovation in the use of drones, data sharing and mapping techniques means that by 2039, it is very likely that significant improvements will have been made. Insurers also already face strong incentives to improve the pricing of risk; the more they are able to do so, the better able they are to tailor products and services to risk profiles of households. As this market develops, Flood Re will be able to manage a smooth transition out of the market by 2039, by slowly reducing both the level of subsidy provided to insurers and the levy raised from the industry.

By far the larger challenge is in ensuring that this transition occurs without impacting on affordability. There are three associated challenges:

1. **Affordability pressure from the removal of the Flood Re subsidy:** All else equal, removing the Flood Re subsidy will lead to potentially significant increases in the premiums and excesses required to provide household flood insurance in flood-prone parts of the country.

2. **Affordability pressure from the removal of the link with ability to pay:** Since premiums are based on Council Tax bands, Flood Re has been set up to provide the lowest premiums to those that are least likely to be able to afford insurance. Once Flood Re exits the market, this link with the ability to pay will no longer exist, meaning that lower-income households might face a disproportionately large increase in affordability pressures.

3. **Affordability pressure from moving to risk reflective pricing and reducing pooling:** Where flood mapping is less accurate, insurers are likely to charge premiums based on broader local characteristics. This means that some low-risk households in high-risk areas are likely to be charged higher premiums than necessary. Equally, some high-risk households in high-risk areas are likely to be charged lower premiums than their underlying risk profile would suggest is necessary. In essence, very high-risk properties benefit from pooling of risk across local areas. As the understanding of flood risk increases, insurers will be better able to charge premiums and excesses that better reflect the underlying risk, rather than pooling across wide local areas.
4. Whilst this will benefit some lower-risk householders (who will see their premiums fall), those with the highest flood risk are likely to face significant increases in premiums and excesses associated with taking out household insurance. Together, these challenges mean that the exit of Flood Re from the market and the move to risk-reflective pricing will lead to higher prices and lower affordability for at-risk households, unless something else changes in the years to 2039.

The only way to achieve this is for the risk-reflective price paid by householders at significant risk of flooding to fall between now and 2039. In turn, this requires that the costs of providing flood insurance also falls. The most obvious way for this to happen is through action to reduce the underlying risk cost of providing insurance.

Since, in a competitive market, reductions in the underlying technical risk cost feed directly through to the risk-reflective price faced by the household, this could lead to a situation where a move to risk-reflective pricing is consistent with the maintenance of an affordable market.

**BOX 6: THE COSTS OF DOMESTIC FLOOD INSURANCE CLAIMS**

For any given flood event, the cost of individual flood-related claims is comprised by a range of factors including:

- **Decontamination and drying out of flooded properties**: Before properties can be repaired, floodwater needs to be removed and the property dried out, cleaned and disinfected. This can take a considerable amount of time even for relatively shallow flooding;

- **Repairing flood damage**: Perhaps the most obvious cost is the need to repair damage caused by flooding. This could typically include replacing floorboards, re-plastering and redecorating affected rooms, replacing damaged furnishings and repairing or replacing damaged electrics and electrical goods. More major building works may also be needed;

- **Temporarily rehousing householders**: Since drying out, cleaning and repairing flooded properties can take a long time, householders often need to be rehoused while this happens. Evidence from previous flood events suggest that the majority of affected householders will be back in their property within a year. However, the most significant repairs can lead to householders needing temporary accommodation for over a year; and

- **Administration costs**: The whole process produces administration costs as a range of professions from surveyors, loss adjusters, specialist cleaning and drying companies and builders and decorators will all need to be coordinated.
Reducing the costs of providing household flood insurance

The current costs of household flood insurance claims

To understand how the costs of providing household flood insurance can be brought down, it is first important to understand the nature and range of costs associated with flood claims. As the first transition plan highlighted, the cost of claims is determined by a number of factors, including the need to repair damage, dry out and clean properties, rehouse residents whilst repairs are undertaken and administration costs associated with bringing together and coordinating a range of trades and professions throughout the process (see box 6).

Routes to reducing the costs of household flood insurance claims.

The largest drivers of the cost of claims are the extent of the damage and the length of time it takes to decontaminate, dry-out and repair the property. This means that, to reduce the costs requires that the damage and/or time involved are brought down. There are three key ways in which this can be achieved:

• Limiting the risks of flooding;
• Reducing the damage caused by and costs associated with flooding; and
• Ensuring that an effective market for household insurance exists.

The sections below outline Flood Re’s vision for how this might be achieved by 2039. This should not be seen as a plan of action for Flood Re alone; it is clear that Flood Re holds relatively few direct levers to achieve these goals. Instead, the responsibility for taking action lies across many individuals, groups, levels of Government and different departments. Section 2 demonstrates the action Flood Re has already taken and section 3 outlines how Flood Re plans to take direct action and support the wider action in future.
Over the next 20 years, it is likely that changes to the natural and built environment will lead to an increased risk of flooding for certain households and communities and perhaps, the UK overall. Within this context it is essential that, where possible, action is taken to reduce these risks and/or avoid exacerbating the likely increases in risks. Key factors are considered below.

The UK government has already accepted that the best way to secure available and affordable household flood insurance is to manage the risk of flooding. As such, national and local governments have a central role in ensuring that the risks of flooding are managed and reduced over time.

In the long term, a clear priority is the need to manage environmental change and the impact that it has on the risk of flooding. Defra, the UK’s environment agencies and the Committee on Climate Change are closely involved in this agenda. Aside from this, there are a wide range of ways in which risks might be managed and reduced over the short to medium term. These include:

- **Flood defences**: Previous estimates suggest that the investment in flood defences that were committed between 2015 and 2021, as part of the agreement to set up Flood Re, could reduce the overall flooding risk by 5%. With this significant impact on flood risk, there is an obvious need for the Government to commit to investment to maintain existing defences post 2021. Furthermore, with flood risks constantly evolving, the Government will need to continue to invest in developing new defences and maintaining and improving existing defences;

- **Housing development**: The need to develop more housing across the UK has been widely accepted. Whilst some development is likely to occur on floodplains, the need to develop more housing needs to be balanced with an approach that ensures this development is sustainable in terms of the impact that it has on flood risk, both of the development itself and the areas surrounding it; and

- **Planning and building regulations**: More broadly, as the UK continues to develop its built environment, this should be undertaken in a way that does not increase the overall flood risk associated with residential property in the UK.
VISION: Limiting the risks of flooding

1. Investing in flood risk management and defences: Informed by improved flood mapping, National and local governments continue to invest in improved flood risk management strategies and flood defences. This should include the maintenance and further development of existing flood defences to ensure that, where economically justified, at-risk properties are adequately protected.

2. Development with flood risk in mind: New developments (including both residential and commercial properties and more broadly, changes to the whole built environment) do not raise the overall risk of flooding for communities around them and the nation as a whole. Where appropriate, properties built in at-risk areas are developed in such a way that this risk is mitigated.
As with the risks of flooding, there are many ways in which the costs of flooding associated with any given flood event can be reduced. As highlighted above, doing so relies on:

- For a given local / national flood event, reducing the overall number of properties that are flooded;
- For those properties that are flooded, reducing the damage caused by the flooding; and
- For any given level of damage, reducing the costs of reinstatement (by speeding up the process and reducing the overall cost of repairs).

Again, action will be needed from a range of individuals, industries and organisations to make this happen.

As outlined in Flood Re’s response to the SMF report on household action on flooding, it is important that the level of flood resistance and resilience of the UK’s housing stock is increased. Compared to doing nothing, doing so would reduce the overall number of homes flooded and reduce damage where flooding does occur. As such, it is important to find ways to encourage householders and property owners to install and use appropriate property level measures.

However, the SMF also highlighted research on the broad range of blockages to householders choosing to take action to undertake repairs to their properties that improve the resilience and resistance to flooding. Breaking these down will, in part, rely on the market for resilience products developing further over time. It will also require householders and those trades and organisations involved in reinstatement to better understand and be able to navigate the market for these products.

Evidence also suggests that local residents, businesses and support groups have a role to play in ensuring that, when flooding is likely, action is taken to reduce the likelihood that individual properties are affected. For example, by ensuring that awareness of the risks is communicated effectively, so that flood plans are implemented and community and household flood defences operationalised.

Finally, a range of organisations and sectors have a role in ensuring that the costs of reinstatement are minimised for any given level of damage caused by flooding. Here, a better understanding of the drivers of the costs of reinstatement needs to be developed and innovation in approaches encouraged in order to bring costs down. It is also important to ensure that best practice is adopted across the insurance sector and trades involved in reinstatement.
VISION:
Reducing the damage and costs of flooding

3. **Improving property flood resilience and resistance products**: A well understood and accredited range of high quality flood resilience and resistance measures are available to households across the UK.

4. **Increasing the overall flood resistance and resilience of the UK’s housing stock**: Ensuring that community and property-level resilience and resistance measures are installed and used effectively where it is cost effective:
   
   a. Where householders have been flooded, they are supported by Government, Flood Re and the insurance industry to “build back better” with appropriate resilience and resistance measures;
   
   b. Householders at risk of flooding are supported to understand the action they can take to improve resilience and resistance and are supported to act where this would benefit them; and
   
   c. Knowledge and understanding of the benefits of resilience and resistance measures are better understood by those engaged in development (e.g. surveyors, trades). New and redeveloped / renovated residential properties are constructed with sufficient resilience and resistance measures installed.

5. **Improving the operation of community flood resistance and resilience**: Communities and householders at risk of flooding develop plans for the onset of flooding and take appropriate action to reduce the risk of flooding and potential extent of damage, once warnings are issued (for instance by mounting removable flood gates and moving valuable belongings to higher floors). Reliable, accurate and trusted sources of information on flood risks and flood events develop so that individuals and communities have the information they need to take action.

6. **Reducing the cost of reinstatement**: Improved claims management, the sharing of best practice and innovation and technological advances in the reinstatement process mean that the average cost of reinstatement reduces over time.
As well as reducing the risks and costs associated with providing household flood insurance, securing a risk-reflective and affordable market by 2039 will rest on the extent to which this market is feasible and the degree of competition within that market.

**Risk-reflective pricing**

By its nature, the household flood insurance market has always been risk-reflective. If an industry-wide view is taken, flood risk is pooled and priced to reflect the known risk profile of the UK. However, whilst in the past, flood risk might be priced appropriately across the UK and indeed, for broad categories of at-risk households, this has not led to a granular understanding of specific risks within these broad categories. Where specific risks were priced in the past, this had tended to be on the basis of a previous flood-related claim for the property. There has also been (and is) significant variation in the performance of different hazard maps and a lack of consistency in the results that they show.

As such, Flood Re does not view transitioning to a market based on previous approaches to risk-reflective pricing to be the ambition. In future, Flood Re believes that there would be a number of advantages to moving to a market that prices flood risk based on flood mapping, that is both more accurate and more granular. These include premiums for relatively low-risk properties in high risk areas which would be reduced and that more granular mapping and pricing of risk would provide important information to householders about the specific risks associated with their property.

It is positive that significant steps are already being taken in this direction; advances in flood mapping and modelling in recent years have included increasingly sophisticated use of digital and aerial technology, including the use of drones. This has improved both the ability of insurers to reflect the underlying risk profile of different areas of the UK and to respond more quickly when flood events hit.

**Removing Flood Re intervention**

There are a number of aspects to ensuring that the support provided by Flood Re is removed by 2039. Overall, the level of subsidy provided to insurers in respect of household flood insurance cover and the levy raised from the industry as a whole, will need to be removed and the organisation and its associated concerns, wound down in practice. Flood Re is committed to managing this transition so that a cliff edge is not created when Flood Re ends and that the planned course of this transition is clearly communicated to householders, insurers and stakeholders so that they may take action to mitigate any potential future impacts.

**Supporting competition**

Another key element of securing an effective market is ensuring that the market for household insurance continues to be competitive. As well as driving down costs for households, this will ensure that many of the other parts of this vision can become a reality; for instance, by giving firms the incentives to invest in improved flood mapping. Ultimately, this will rely on householders understanding the risks of flooding, the role of flood insurance and actively taking the choice to shop around.
VISION:

Achieving an effective market

7. **Improving flood modelling**: The quality and precision of openly available data on UK flooding continues to improve. This also continues to be fed into insurers’ approaches to flood mapping to ensure that they are able to price household insurance products based on the underlying flood risk profile (rather than simply experience of a claim). Positive action (resilience / resistance) that householders and communities have taken is recognised in assessments of flood risk and priced into insurance products. Modelling is constantly updated based on most recent information. Data and mapping is used to help householders understand the risks that they face.

8. **A smooth Flood Re exit**: In 2039, Flood Re is wound down and exits the market. This is managed to ensure that a cliff edge is not introduced into the market and that at-risk householders understand in advance the likely impact on their future bills and the action they can take to mitigate any potential impacts.

9. **Improving consumer information on flooding and the value of insurance**: Householders understand the flood risk associated with their property and steps that they can take to reduce this risk. They also understand the role that insurance can play in protecting them when flooding occurs and the value that this provides.

10. **Active engagement in the market**: Householders at risk of flooding have the information and capability they need to shop around for the best value for money household insurance policy.
Reducing the risks and costs of flooding and increasing competition will mean lower premiums for many at-risk households. However, for some households at the very greatest risk of flooding, the investment needed to reduce risks and costs would be uneconomic. As outlined above, it is also likely that improved flood mapping will allow flood risks faced by specific householders to be identified and this could lead to significant rises in household insurance premiums and excesses for a small number of properties.

Together, this means that even with a successful transition, there will be a small number of households where household insurance is likely to be viewed as unaffordable once Flood Re has been wound down. To tackle this, policymakers will need to decide whether some form of support continues for these households once a risk-reflective market is in place and if so, develop a strategy for doing this.

It is also important that, during the course of the next 21 years, action is taken to reduce the number of properties that would fall into this category. As above, this will rely on ensuring that appropriate investment takes place in the development and maintenance of flood defences and that households do all they can to minimise the risks of flooding in their own property. It will also require that more properties are not moved into this category through inappropriate development.
VISION:
The limits of affordability

11. **Those with unavoidably high levels of flood risk**: If some form of support is to continue, policymakers develop a strategy to ensure that the small number of properties at the very highest unavoidable risk of flooding have access to and take up affordable household insurance.

12. **Minimising the size of the highest-risk group**: The size of this potential group is actively monitored, and a strategy is in place to minimise its size by 2039.

Conclusion

This section has outlined Flood Re’s vision for what would need to happen to make an affordable market for household insurance with risk-reflective pricing of flood risk feasible by 2039. Achieving this will take significant action. However, it is clear that Flood Re holds very few of the policy or practical levers to make these things happen. This means that action will be needed from households and home owners themselves, government bodies, the insurance industry and wider industries involved in flood preparation, mitigation and response. However, Flood Re can and will play an important role in supporting the actions of others, convening and coordinating actions and taking direct action where it can. The following two sections of this document outline action taken to date, a set of principles against which Flood Re can prioritise future work and an overview of action over the years to the next transition plan update.
SECTION 2:

DELIVERING THE VISION TOGETHER
- WHAT FLOOD RE HAS ACHIEVED SO FAR
2.1 INTRODUCTION

Flood Re has already taken significant steps to support this vision. This can be seen in both the direct action that Flood Re has taken in its day-to-day role as a household flood reinsurer and in the role that it is playing in supporting the development of better understanding and practical action by others. This section gives a brief outline of some of the activities in which Flood Re has been engaged.
The most obvious role that Flood Re has played is in supporting the provision of an affordable market for household insurance for those properties currently at risk of flooding. As already highlighted, the first two years have been a success in this respect. More than 150,000 at-risk households have accessed more affordable home insurance and the scheme is helping people whose lives have been devastated by flooding. There has been a continued improvement in both the availability and affordability of home insurance for those with prior flood claims, as well as those who have not yet been flooded but are in at-risk areas.

**Raising awareness across the country**

Flood Re’s key message to the public from the start has been that people should be prepared to shop around to find the best deal for them and not just the cheapest.

On launch day, millions of consumers were reached through broadcast coverage across Sky, BBC, ITV and Channel 4. This was complemented by 240 pieces of print and online coverage, including over 100 regional articles and 40 stories in trade titles. Social media generated more than 109,000 targeted impressions and numerous tweets from MPs including Harriet Baldwin, then Economic Secretary to the Treasury.

In the build up to launching the scheme, Flood Re’s Chair and then Chief Executive, held two roundtables per region in seven flood risk areas of the UK. Mary Dhonau, a community flooding consultant and Paul Cobbing, Chief Executive of the National Flood Forum, also took part in these regional roadshows to give advice and guidance on a community level.

The roundtables involved local flood groups, MPs, Local Environment Agency representatives, Council leaders and civil contingency officials from local authorities, Councillors with responsibility for flooding and insurance industry representatives. Local journalists were also invited to generate local media coverage and importantly, to explain how Flood Re works and can help. Interviews were also set up with regional broadcasters such as ITV News, BBC Radio Cumbria, BBC Radio Gloucestershire and print titles such as the Cumbria Crack to raise awareness of the Scheme.
In September 2016, a team of Flood Re employees cycled from Land’s End in Cornwall to John O’Groats in Scotland. Stops were made in ten flood-prone towns along the way, to meet with local MPs, councillors, flood action groups and members of the public to raise awareness of the Scheme. The team also heard first-hand from those who had previously been affected by flooding. MPs and local councillors attended these regional events, whilst eight media outlets covered the events, including ITV News and BBC Radio Gloucester. As well as raising awareness of Flood Re in flood-prone communities, the team raised £7,477.50, which was split between the British Red Cross, the National Flood Forum and the Scottish Flood Forum. This money was used to help those affected by flood events.

Since then Flood Re has continued to engage in outreach work to increase coverage of the scheme. To inform this, research from Populus was commissioned to improve understanding of why some of those eligible to benefit from the Scheme do not yet have Flood Re coverage.
This direct action is essential to both delivering an affordable market now and providing the space for action to reduce the risk and costs of flooding and competition in the market. However, as Section 1 outlined, the goal of an affordable household insurance market for those at risk of flooding will not be achieved by focussing purely on the delivery of an effective flood reinsurance scheme.

Flood Re has a unique position to act as a convenor and the catalyst for change in the way society thinks about and acts on flooding. It is already taking significant steps to build the evidence and support action.

Building the evidence base

In March 2018 two pieces of thought-leadership work were published by Flood Re. The first, undertaken by the University of the West of England, looks at the financial viability of property-level flood resilience and resistance (PFR) measures, including both post-flood repair and proactive resilience intervention. The report concludes that PFR measures are beneficial and play an important role in flood risk management. Whilst further research is needed to quantify the merits of PFR, Flood Re believes that householders should be encouraged to implement such measures.

In this context, Flood Re also supported a report by the Social Market Foundation (SMF) which looked at the options for incentivising PFR uptake. One policy that the report assessed was the ‘three strikes and you’re out’, whereby a household would be prohibited from having their policy ceded to Flood Re after the third time they were flooded if they did not take up PFR. The SMF report found that this would only have a marginal effect on PFR take-up and it would ultimately deviate away from Flood Re’s objective of increasing the availability of affordable home insurance. Another policy used a positive approach of rewarding those who implement PFR measures with lower premiums. The SMF report did not find that this would be significant enough to help achieve risk-reflective pricing in the time period. However, it does have some potential because it has a precedent in other areas of home insurance, for example, with the voluntary installation of smoke detectors and mortice locks.
Supporting action

Building knowledge and expertise is not enough on its own. To achieve change, it must be used to support and guide action from others that need to act over the 21 years to 2039. This includes a wide range of groups, including the insurance industry, the public sector (which includes the UK Government, devolved administrations, local and regional governments and the UK's environment agencies) and people in flood-prone parts of the country.

Households and communities

As well as raising awareness of the scheme, work with households and communities has focussed on raising knowledge and understanding of flood risk and how to prepare and respond to flooding. A key example was the launch of the Flood Re “Local Heroes” Award in July 2017. This involved a nationwide search for local flood heroes; people who went above and beyond in times of flooding. By recognising and championing the work that is being done on the ground by individuals and community flood groups to address flooding and minimise its impact, it allowed us to raise the profile of what can be done to prepare for and combat flooding.

The Awards generated 146 nominations and reached tens of thousands of people. The winning hero was Geraldine Brown from Yalding in Kent. From spending Christmas Day 2013 rescuing flood-trapped residents to setting up emergency contact and respite centres, Geraldine has selflessly dedicated the last seventeen years of her life to reducing the impact of flooding on others. She received a £10,000 community prize at the Local Heroes Awards ceremony at the Palace of Westminster. This was hosted by Rebecca Pow MP and the prize was awarded by the Floods Minister, Thérèse Coffey MP.

Flood Re encouraged industry to get involved and appreciate the sponsorship that was provided by NFU Mutual and Covéa Insurance. Throughout the campaign, Flood Re engaged with local communities by sending bi-monthly newsletters to over 300 flood forums and leaflets and posters to local councils, MPs and flood groups.
Public sector

Flood Re does not act in isolation. A wide range of agencies, organisations and departments across the UK, devolved and local governments are undertaking significant work on flooding and flood preparedness. Many of these bodies have a large degree of experience in doing so and hold significant policies and practical levers that will be instrumental in ensuring that Flood Re’s vision for 2039 is achieved. This means that engaging with, supporting and influencing these bodies and individuals, forms a key part of Flood Re’s day-to-day business.

One key example of work that Flood Re has been undertaking in this area, is in using its developing experience and expertise in flood risk and resilience, to inform a number of working groups that have been set up following the Government’s Flood Resilience Action Plan. Flood Re is an active member of a number of these working groups and will continue to be so in future.

Flood Re also operates an extensive engagement programme with UK Parliamentarians, as well as Members of the Scottish Parliament (MSPs), Assembly Members (AMs) in Cardiff and Members of the Legislative Assembly (MLA) in Northern Ireland. This has included visits to meet Ministers and their officials in Stormont, Cardiff and Holyrood.

Industry

The insurance industry was the key driver behind the establishment of Flood Re and all parts of the industry have continued to support the scheme since its launch.

From the outset, the need to ensure the market is as competitive as possible has been clear, as this would exert downward pressure on prices for consumers.

After launching with 16 insurance providers in April 2016, the number of providers signed up to support the scheme increased to 36 by June 2016 and well over 60 insurers are now signed up to the scheme. Between them they represent 90% of the home insurance market. A list of those insurance brands that are providing Flood Re-supported products can be found on the Flood Re website.

The positive effects of this competition are clear. Prior to launch, only 9% of householders who had made prior flood claims could get quotes from two or more insurers, with 0% being able to get quotes from five or more. By October 2017, availability had improved so that 100% could get quotes from two or more insurers, while 93% of these households could get quotes from five or more. By January 2018, 74% of those with flood claims could choose from at least 10 insurers. Four out of five householders with a prior flood claim saw price reductions of over 50%.
Flood Re has also engaged extensively with the ABI and a wide range of insurers and industry leaders. For example, participating in, presenting at and attending industry events to raise awareness about how Flood Re works with insurers. Flood Re updates the ABI’s Property Steering Group and General Insurance Council and Members Forum. The Scheme has also hosted industry workshops and meets regularly with sector leaders and experts to discuss a range of issues, including Flood Re’s work on incentives, its approach to transition and the role that Flood Re and the industry can play in supporting householders to take action to protect their properties.

Wider stakeholders

A wide range of other stakeholders also have a significant role to play in ensuring a successful transition by 2039. These include other industries involved in the reinstatement and development of properties, academics and charities and other groups representing particular groups of households or vulnerable people. Flood Re has engaged with a large numbers of groups, through organising and participating in events such as roundtables, public meetings and individual discussions.

Flood Re is also building international links to ensure that others can learn from its success and that lessons are learnt about what works in other countries. In the last two and a half years, Flood Re representatives have spoken at international conferences such as the World Forum of Catastrophe Programmes in Paris and Taiwan, the National Insurance Conference of Canada, the Danish Storm Council, the Guy Carpenter Symposium in Germany and the International Insurance Forum in Prague. These have been important platforms to share details of how Flood Re works in the UK as well as opportunities for the senior team to hear about global best practice.

As well as these international conferences, Flood Re has received visitors in London from around the globe. This included hosting the Ministry of Water Resources, from the People’s Republic of China, as well as a delegation from South Korea made up of national and local government officials and insurance professionals.
SECTION 3:

HOW FLOOD RE WILL SUPPORT THIS VISION
The first two sections have highlighted the scale of the challenge Flood Re faces in supporting the market for household insurance to reach a situation where risk-based pricing of flood risk is compatible with a market that provides affordable insurance for the vast majority of UK households. As well as outlining the significant steps that Flood Re has undertaken to begin this work, they also outlined Flood Re’s vision for how this might be realistically achieved and the types of action needed by 2039.

In taking forward this action, Flood Re has an almost limitless range of options available to it and external commentators have already argued for many forms of intervention. With competing choices available and future calls for further action inevitable, Flood Re will have to choose the most appropriate course of action. Doing so will require an objective way in which to trade off the relative costs and benefits of each approach. This section outlines a set of broad principles against which Flood Re can prioritise its future action, before turning to immediate steps that Flood Re has identified using these principles, as priorities for action, between now and the next transition plan update.
3.2 PRINCIPLES UNDERPINNING THE CHOICE OF FLOOD RE ACTION

1. Additionality

In many of the areas highlighted above, significant bodies of work are already underway. For example, the UK’s environment agencies, the Committee on Climate Change, Defra and local authorities are already engaged in detailed bodies of work on the appropriate scale and nature of future flood defence investment. There are also individuals and groups already exploring how changes to building regulations could support increased flood resilience and how industries can work together to certify and standardise the approach to resilient repair.

In taking forward its work, Flood Re will seek to engage in activities that are additive or complementary to the work that others are already undertaking. It will seek out and identify gaps in existing knowledge and action and develop a view on how it can contribute to filling these gaps.

2. Expertise

Flood Re will engage in work where it has the necessary expertise to contribute meaningfully. Where work is identified that requires expertise that Flood Re does not have, it will identify those who are well placed to undertake this work. In some cases, where the work fits with Flood Re’s other principles, it could commission this work from the relevant parties. Where this does not happen, it will engage with others to make the case for the work needed and demonstrate the value it could provide to delivering Flood Re’s objectives.

3. Impact

Flood Re will seek to maximise the impact of the action it takes. Evidence and testing will be used to ensure that the scale of action Flood Re takes is proportionate to the potential benefit delivered by the activity, in terms of ensuring the affordability and availability of household flood insurance, both now and in the future.
4. Sustainability

Flood Re will engage in work that promotes the sustainability of a risk-reflective and affordable market for household insurance. This means focussing on actions that both support the transition up to 2039 and create the conditions for an affordable market to continue to exist after 2039.

A key part of this will be to ensure the maintenance of a competitive market for household insurance. For this reason, where Flood Re is undertaking or commissioning work it will prioritise activities that actively support and do not inhibit, competition in the market.

5. Partnership

Flood Re has limited resources and few direct policy levers. As such, in many circumstances, Flood Re’s primary role will be in supporting, facilitating and promoting the actions of others. This means that, where there is a case for action, Flood Re will consider how it could partner with local and national organisations and individuals to take this work forward, before considering taking direct action itself.
3.3 WHAT THIS MEANS IN PRACTICE

Where there is a case for action, Flood Re has a choice over the nature of its intervention (whether direct action or a supporting role) and the scale of intervention (in terms of the resource it dedicates to the intervention). This is demonstrated in figure 7. Going forward, it is likely that Flood Re will undertake work in each of the quadrants of this diagram; for example, it might undertake work in quadrant D, where a relatively low-cost supporting role can achieve the desired outcome. For other areas (i.e. projects in quadrant B), Flood Re will need to play a large direct role in order for the vision to be achieved.

Table 1 combines the vision statements from section 1 and these principles and categorisation to provide examples both of areas where Flood Re has already taken action and of areas where it will act in future.
Flood Re influences or partners with others to deliver. Significant resource is invested as the scale of change needed in large or Flood Re’s position in the market is unique.

Flood Re has the expertise to deliver directly. Significant resource is invested in the activity as the scale of change needed is large or Flood Re’s position in the market is unique.

Flood Re play a supportive or influencing role with others who are better place to deliver the necessary change.

Flood Re plays a direct role to achieve change, but this is proportionate to the outcome achieved and in relation to other partners.
## TABLE 1: FLOOD RE VISION FOR 2039 – ACTIONS TO DATE AND FUTURE APPROACHES

<table>
<thead>
<tr>
<th>VISION: Reducing the risks of flooding</th>
<th>Example of action Flood Re has already taken</th>
<th>Example of approach Flood Re will take forward in future</th>
<th>Categorisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing in flood risk management and defences</td>
<td>Flood Re has outlined the important role that national flood risk management strategies and flood defences play in delivering an affordable market for household flood insurance. It is building strong relationships with Defra and the UK’s environment agencies and is collecting data on national flood risk based on patterns of ceded properties.</td>
<td>Flood Re will use the data, knowledge and expertise that it holds to inform the decisions that others make on the level of investment and effectiveness of flood defences.</td>
<td>A.</td>
</tr>
<tr>
<td>Development with flood risk in mind</td>
<td>Flood Re has articulated the need to consider future flood risks in planning for transition. It is building strong relationships with Defra and the UK’s environment agencies and has actively contributed to Defra’s resilience round table.</td>
<td>As the built environment changes Flood Re want two things to happen: 1) that new housing stock has resilience built in and 2) it does not create additional or unmanaged risk for other properties. Flood Re will actively support the Defra round table, increase its support for its working groups and work with the BRE to promote better standards, guidelines and regulations.</td>
<td>A.</td>
</tr>
<tr>
<td>Improving property flood resilience products</td>
<td>Flood Re has already been engaging in working groups that are considering this area, including the Government’s Flood Resilience Action Plan. Flood Re has sponsored the Cumbria Resilience Showcase Project.</td>
<td>The next phase of research with UWE will look at quantifying the benefits of PFR and thus help to support and grow the market for resilience products. Flood Re will continue to engage in workshops and roundtables already developing thinking in this area. It will also consider what role it might play in helping to inform households about these products.</td>
<td>A.</td>
</tr>
<tr>
<td>Improving the operation of community flood resistance and resilience</td>
<td>Flood Re has launched the Local Heroes campaign and undertaken significant engagement activities in communities at risk of and / or affected by flooding.</td>
<td>Flood Re will engage with local communities, community flood leaders and national representatives to build capacity to help communities become more resilient. Flood Re will look at developing a digital forum/platform with partners to showcase best practice and support communities to learn from others and be better prepared for future flooding.</td>
<td>A.</td>
</tr>
<tr>
<td>Increasing the overall flood resilience and resistance of the UK’s housing stock</td>
<td>Flood Re has commissioned and published work from the University of the West of England, the Social Market Foundation and Populus to understand the potential role of resistance and resilience measures and the blockages to households taking them up.</td>
<td>Flood Re is actively looking at how it can support &quot;build back better&quot; by partner insurers, where claims are made through the scheme. It will also undertake work to consider how it might encourage the development of flood performance certificates.</td>
<td>A.</td>
</tr>
<tr>
<td>Reducing the cost of reinstatement</td>
<td>Through its work on incentivising resilience, Flood Re has identified this as an area in which more work needs to be undertaken.</td>
<td>Flood Re will begin work with insurers looking at using our data, knowledge and expertise to develop best practice.</td>
<td>A.</td>
</tr>
<tr>
<td>VISION: Achieving an effective market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving flood modelling</td>
<td>Flood Re has been developing its own expertise in flood modelling working with the UK environment agencies and model vendors, particularly through the development of our own internal model project.</td>
<td>Flood Re will develop its own expertise in flood modelling. It is working with the Environment Agency on its Long Term Investment Strategy (LTIS) and the NAFRA2 enhancement of flood maps for England and Wales.</td>
<td>B.</td>
</tr>
<tr>
<td>A smooth Flood Re exit</td>
<td>Flood Re has now published two transition plan documents, detailing the work it is undertaking to ensure a smooth exit for the scheme.</td>
<td>Flood Re will continue to publish updates to its transition plan and associated research and analysis. This update has committed to a number of streams of work that will be undertaken in the coming years and Flood Re will report back as outlined in this document.</td>
<td>B.</td>
</tr>
<tr>
<td>Improving consumer information on flooding and the value of insurance</td>
<td>Flood Re has commissioned and published work from the Social Market Foundation and Populus to understand the existing state of household knowledge.</td>
<td>Flood Re will use its own communications (and support others in their communications) to improve household understanding and identify what are the best messages to use, what are the best channels to deliver them and who are the most trusted voices.</td>
<td>B.</td>
</tr>
<tr>
<td>Active engagement in the market</td>
<td>Since the inception of Flood Re, the number of insurers from whom at-risk households can gain cover has increased significantly. Flood Re has actively encouraged consumers to shop around for household insurance.</td>
<td>Flood Re will ensure that insurers can participate in the Scheme in the most efficient way possible. In conjunction with our insurer partners we are actively considering how to optimise the benefits of the scheme whilst maintaining our financial performance.</td>
<td>B.</td>
</tr>
<tr>
<td>VISION: The limits of affordability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Those with unavoidably high levels of flood risk</td>
<td>Flood Re has articulated the need for work in this area, highlighting this subject as an essential part of achieving a successful transition.</td>
<td>This update commits Flood Re to exploring options for how these households might be supported after 2039. It will report back on this work as outlined in this document.</td>
<td>C.</td>
</tr>
<tr>
<td>Minimising the size of the highest risk group</td>
<td>Flood Re has supported both households and communities to understand how they can reduce risks and the UK’s flood authorities, planning bodies and environment agencies to understand the role that flood-aware development should have in future.</td>
<td>Initiatives to reduce the likelihood and cost of flooding, including the increase take up of PFR, ‘build back better’ and better flood defences will all contribute to minimizing the size of this group.</td>
<td>C.</td>
</tr>
</tbody>
</table>
As well as setting out principles for how the direction of future work will be decided, a range of activities can already be committed to over the course of the next three to five years. These activities have been guided by these principles and informed by discussions with a range of stakeholders including flood experts, the insurance industry and academics. These are highlighted below.

1. Continuing with work already underway

Flood Re has already begun to take practical steps to prepare for a future of affordable flood insurance for households. Section 2 outlined a range of activities undertaken in the last two years and which are already having a tangible impact. Flood Re will continue to take forward work in all these areas. In particular, Flood Re will:

1. Leverage its role in engaging and convening a wide range of stakeholders to support the delivery of affordable and available household flood insurance in the UK, both now and in the long term;

2. Commission work to:

   a. Understand public attitudes and behaviours towards flood risk, insurance and Flood Re, particularly focussing on areas at high risk of flooding;

   b. Further develop understanding of the potential benefits of property flood resilience and how it can be delivered through insurance products; and

   c. Understand the impact that Flood Re is having on the market, including on the availability and affordability of household flood insurance and competition in the market.

3. Build on the success of Flood Heroes with new campaigns to further engage with communities at risk of flooding to inform them about the scheme and what they can do to mitigate the risks and damage of flooding.
2. Developing the role of Flood Re

This document has outlined Flood Re’s vision for an affordable and risk-reflective market for household insurance to exist in 2039 and beyond. It has highlighted 12 areas where things need to change in order for this to become a reality. Flood Re’s role is to manage its own transition and also to understand and encourage the conditions necessary for transition to happen without introducing a ’cliff edge’ or potentially negative impacts on householders.

In the first two years of operation Flood Re has taken significant steps to understand the role it can play in many of these areas. For example, it has outlined a position on incentivising householders to take action to protect themselves from the risks and costs of flooding. However, there are still other areas to explore and where, based on the principles for action, further work is needed to understand where Flood Re can make a positive impact.

As such, between now and the next transition plan, work will be undertaken to develop and publish a view on Flood Re’s role in a number of areas that are key to delivering the vision by 2039. This will include:

1. How to support the development of improved flood mapping in order to inform improvements in risk-reflective pricing and decisions over flood defence investment;

2. Flood Re’s role in supporting changes to building regulations and planning rules to improve the flood resilience of existing and new housing in the UK;

3. Understanding the range of options that might be available to support those properties at greatest risk of flooding post 2039; and

4. An exploration of how Flood Re could widen its investment strategy to support achieving a successful transition. To investigate what, if anything, Flood Re could and should fund with any capital that is beyond what is required for prudential operation of the scheme.

To support this work, Flood Re will consult widely with its full range of stakeholders to understand their views on where it can provide additionality and where its unique position would allow it to make a distinct impact.
3. Increasing resilience through resilient repair

Flood Re’s response to the SMF work on incentivising household action highlighted the important role that “build back better” could play. Where improvements made the property more flood resistant or resilient in the future, this approach would allow for reinstatement to exceed the value of simple like-for-like replacement. Currently, the costs of this approach would need to be met by the insurer or homeowner as it is not allowed under the Regulations governing the Flood Re scheme.

Flood Re’s quinquennial review will outline a position on how this approach might be supported. To inform this, Flood Re will continue to build the evidence base and work with the insurance industry, Government and the range of associated trades to understand:

- The potential ways in which the approach could be designed and operated, including consideration of issues such as how and whether the extent of betterment should be capped;
- How the different approaches might interact with any future flood resilience grant schemes in England and the existing schemes in devolved administrations;
- The extent of Flood Re involvement and whether legislation would be needed; and
- How it could be operated in practice to ensure that it has the largest impact possible.

As part of this, the evidence base will be developed further through the next phase of collaboration with the University of the West of England, with a focus specifically on measuring the effectiveness of PFR in reducing loss.

Insurers also have an important role in encouraging householders to consider investing in resilient repair where they have been flooded or if they live in flood-prone areas. To this point, very few policies explicitly recognise the benefits that resistance and resilience measures bring and so there is no discount offered to reward those householders which introduce them. Flood Re will be working with insurers, flood risk communities and other partners to investigate how the adoption of resilient improvements by householders can be recognised and rewarded.

In particular, this will include work to assess the likely impact both of “build back better” and householders’ own actions, on the insurance premiums charged to those households.
4. Building social capital and strengthening communities

Experience to date and the evidence provided in a range of research, demonstrates that community infrastructure and capacity is crucial for resilience at both community and household level. Building this social capital at a local level, supporting a national network of voluntary groups and growing the sector, clearly meets the principles for action outlined above and will form a strong part of the role that Flood Re will play in future. In the time up to the next update of the transition plan, a range of projects will be undertaken in this area, for example, consideration will be given to:

- Working with the right partner to provide the digital platforms and tools required by flood groups to enable mutual support, peer-to-peer mentoring, sharing of best practice, development of new groups, co-ordination and learning. This will draw on the experience of other successful social platforms like Mumsnet, Mush and Bubble; and
- Developing and running a national, or series of local events, bringing together flood community leaders.

5. Incentivising action from households

As outlined in Flood Re’s position paper on incentivising household action, Flood Re will not be proposing a change to the Scheme to allow for either a premium price “escalator” approach or a “three strikes and you’re out” approach to incentivise the update of Property Flood Resilience measures.

Flood Re can play an important role in developing approaches to incentivise household action. As well as a commitment to consider “build back better” and how investment in resilience might be priced into premiums, Flood Re will undertake testing of how householders’ understanding of flood risk and the benefits of Property Flood Resilience might be improved.
Communication strategies

In the first instance, Flood Re will form partnerships with other groups, including academics, local flood groups, UK, devolved and local governments and organisations such as the fire service, as well as experts in communications and behaviour change to scope and outline how to take forward tests to understand:

1. The most effective ways in which information about flooding (including flood risk) can be communicated; and
2. The communications channels that are most effective in delivering these messages.

Work will be undertaken on this in the coming months and Flood Re will report back in the winter. This will also be used to develop and test how Flood Re communications with consumers (delivered through the insurers of ceded properties) can be used to improve this understanding. Findings from this work will be reported back by 2021.

Flood Performance Certificates

Flood Re’s work with SMF also highlighted the potential role that Flood Performance Certificates (FPCs) might play in informing householders of flood risk and mitigation strategies; incentivising action; and removing the potential stigma effects associated with the installation of resilience measures. Since publication, Flood Re has discussed this issue with a number of other organisations considering the role of FPCs.

These conversations have highlighted that there is merit in exploring this issue further. However, there is already work being undertaken in this area. To build on this work, Flood Re will undertake work in the coming months to develop a blueprint for action based on previous UK and international experience; bring together interested parties to form a working group; and scope the feasibility of such an approach in the UK. Flood Re will report back on this work in 2019, with clear recommendations for future action from Flood Re and others.
Flood Re cannot achieve its vision of an affordable market for household insurance for those UK households at risk of flooding on its own. Whilst it will take direct action in some cases, in many areas of the vision outlined in this report, Flood Re rely on others taking action between now and 2039. This includes the UK Government and devolved and local governments and flood agencies and partners in a range of industries and trades.

In many areas, Flood Re will play an important supporting role; helping to build the evidence base, prompting action from others and convening stakeholders and interested parties to maximise their impact. This update to the transition plan has outlined a range of areas where Flood Re will begin and further develop work between now and the next transition plan update, to take that action forward. Figure 8 provides an outline timeline and regular reports on when progress will be made, including through:

- A twice-yearly meeting of insurers’ forum on transition, which has already been established;
- A twice-yearly meeting of the consultative group of stakeholders that has already been established;
- Ad hoc events and meetings when we publish new or updated work;
- Annual reporting through Flood Re’s Annual report; and
- The next update to the Flood Re transition plan before 2023.

By working together in this way, the vision of a household insurance market where the vast majority of households at risk of flooding have access to affordable insurance is a realistic and achievable goal by 2039.

**FIGURE 8: OVERVIEW TIMELINES FOR WORK COMMITMENTS IN THIS UPDATE**

[Timeline diagram showing key milestones such as transition plan update published, update on work on Flood Performance Certificates, update on communication plan, first transition plan published, update on best messages, channels and communications strategies, update in Flood Re submission for quinquennial review, position papers outlining role Flood Re can play on a range of issues.]
END NOTES


- Independent research by Consumer Intelligence, a research consultancy that focuses on the insurance and banking sectors. At the end of 2015, Consumer Intelligence (CI) was commissioned by Flood Re to evaluate the impact of Flood Re on home insurance availability and affordability. A total of 2,752 householders formed the sample group in 2016, and 1,951 in 2018.


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- While the link between council tax bands of properties and household incomes are not perfect, they do act as a good proxy.


