

## **Flood Re**

Flood Re Limited (hereinafter 'Flood Re' or 'the Company') is the Scheme Administrator for the Flood Reinsurance Scheme ('Flood Re Scheme') and is principally engaged in the provision of flood peril reinsurance cover within the UK. The Flood Re Scheme is a joint initiative between the UK insurance industry and the UK Government. The Flood Re Scheme was established by the Water Act 2014. Further details of the Scheme can be found on the Company's website at [www.floodre.co.uk](http://www.floodre.co.uk).

Flood Re Limited's purpose is to promote the availability and affordability of flood insurance for eligible homes, while minimising the costs of doing so, and to manage, over its lifetime, the transition to risk-reflective pricing for household flood insurance.

In order to do this, Flood Re Limited provides reinsurance cover at a subsidised fixed rate to cedants, resulting in an expected underwriting loss each financial year. The Company finances this through a £180m Levy on UK household insurers. The Levy also finances the purchase of an outwards reinsurance programme to protect the Company up to a £2.244bn (2019: £2.198bn) maximum Liability Limit.

Flood Re Limited is a mutual reinsurer and was incorporated in August 2013 as a private UK Company limited by guarantee. Regulations designating the Flood Re Limited Scheme came into force on 11 November 2015, providing Flood Re Limited with the power necessary to fulfil its purpose.

On 1 April 2016, Flood Re Limited was authorised by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA).

Flood Re Limited launched on 4 April 2016.

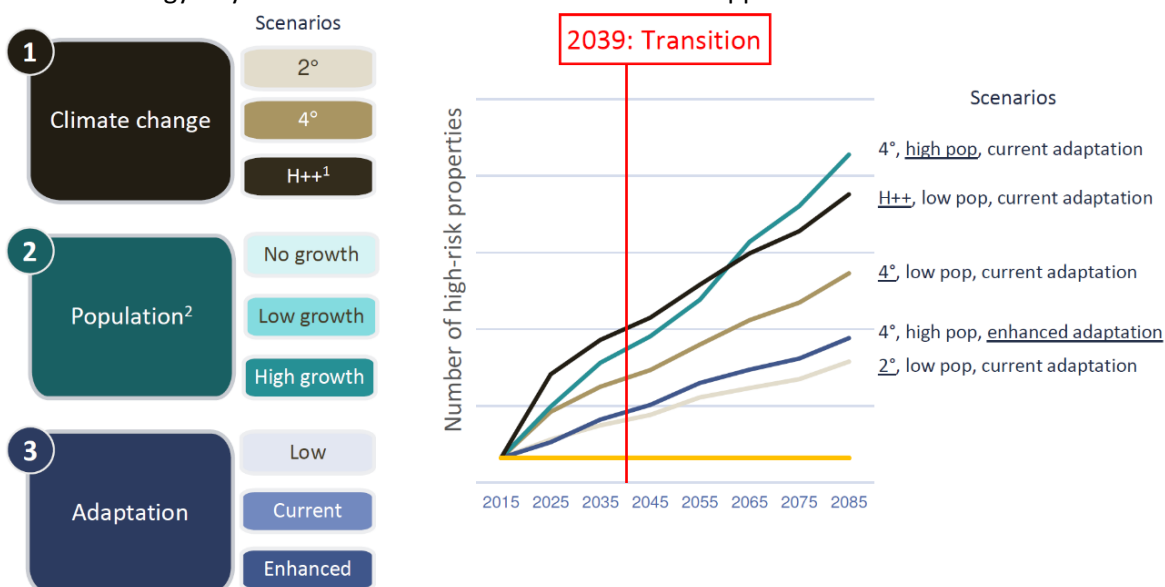
### **1. Be accountable**

#### **1.1. Ensure that the organisation's board is working to incorporate the ClimateWise Principles into business strategy and has oversight of climate risks and opportunities.**

- Climate change is a top area of focus for Flood Re's Board. The December 2019 Board Strategy day largely focused upon the impact of climate risk on Flood Re's purpose. Within the 2020 Annual Report<sup>1</sup> details are found on pages 5-6 of the Statement by the Chair; pages 7-9 of the CEO Statement; and pages 20-21 of the Strategic Report. Additional background and highlights from the Annual Report are also noted below.
- Specifically, in Flood Re's 2019/20 ORSA four major risks to Flood Re successfully transitioning out of the market in 2039 were identified: climate change, unconstrained housing development, insufficient investment in flood defences, and lack of homeowner awareness of flood risk and investment in property level resilience measures.
- To further understand the impacts of these risks, Flood Re's Risk Function and Transition Team engaged with Sayers and Partners to use its Future Flood Explorer model (the same tool leveraged by the Committee on Climate Change for its "UK Climate Change Risk Assessment") to analyse the projected number of homes that will be at high-risk of flooding out to the 2080s.

<sup>1</sup> Flood Re 2020 Annual Report: <https://www.floodre.co.uk/wp-content/uploads/Flood-Re-Annual-Report-2020-FINAL.pdf>

- The results of this analysis were the basis of the December 2019 Board and ExCo Strategy day mentioned above, which consciously shifted to focus on the medium- and longer-term risks to Transition. The exhibit below summarises the results of FFE’s combined scenarios which consider each of the aforementioned risks to transition (note that risks (3) Flood defence investment and (4) Property level resilience are captured under the 3rd variable “Adaptation”).
- The Board and ExCo also heard from Nina Seega, Research Strategy Director at ClimateWise, and Kathryn Brown, Head of Adaptation at the Committee on Climate Change Secretariat at the Strategy Day to better understand climate risks and opportunities to Flood Re.



- Climate change was highlighted in the Statement by the Chair of Flood Re in the 2020 Annual Report where he called out the results above noting:

“Flooding is a dynamic risk. Over recent years, we believe that losses from flooding have reduced as a consequence of investment in flood defences, but as we look to the future we can see climate change increasing the frequency and severity of flooding, putting more homes at risk. By the 2050s for example, annual losses from flooding are expected to increase by between 25% and 80% depending on whether global temperatures warm by 2°C or 4°C. The number of homes at high risk of flooding could increase by between 400,000 to 740,000 properties. This is the case even with current levels of investment in flood defences, underlining the need for further adaption measures to protect homes from flooding.

The Scheme will be impacted by climate change. As the incidence of flooding increases, it is likely that insurers will cede more homes to Flood Re and more households will benefit from the security of continued affordability and availability. Secondly, it will intensify the challenge we face in managing the market back to affordable, risk-reflective pricing by 2039.

The Scheme was designed to be dynamic and respond efficiently to both the historic level of claims and the projections of future losses, thus we are confident that we can accommodate increased volumes. As part of our Quinquennial Review (QQR)<sup>2</sup>, which we concluded last year, we proposed changes to the financial parameters of the

<sup>2</sup> Further details of the QQR can be found on the Company’s website at [www.floodre.co.uk/about-us/reports/](http://www.floodre.co.uk/about-us/reports/)

Scheme that will enable it to adjust to changing volumes of business and claims on a more timely basis.

Climate change also threatens our ability to exit the market by 2039. That is why effective flood risk management and investment in defences are essential to reduce the frequency and severity of future flooding. We have been encouraged by the announcement in the 2020 Budget of significant increases of funding in this area and would like to see the UK Government go further by ensuring this investment is sustained over the longer term. In addition, it is essential that all new housing developments are built with flood risk in mind. This means that existing planning guidance is followed and, where necessary, enforced.

In the QQR, Flood Re made practical proposals to support and accelerate the adoption of resilience measures in homes at risk. The first is the 'Build Back Better' initiative, where Flood Re would be permitted to pay claims that include an additional amount for resilient or resistant repair, above and beyond the original damage. The second proposal is for 'discounted premiums' that would recognise and reward those householders who have proactively made their homes more resilient to flooding, by offering them discounted premiums on their home insurance policies. Flood Re's package of reforms was presented to the Secretary of State for Environment, Food and Rural Affairs last year and we await his response.

The proposals in the QQR to improve the resilience of the housing stock are only part of the work we are undertaking to support the market transition. We are clear though that we will only be able to achieve this if measures to reduce the cost of flooding are sustainable in the long-term and respond effectively to the challenge of climate change."<sup>3</sup>

## **1.2. Describe management's (below board-level responsibility) role in assessing and managing climate-related issues.**

- Beneath the Board, Flood Re has a number of committees that discuss climate-related risks as a matter of routine given the threat of climate change directly both Flood Re's operation as a catastrophe reinsurance vehicle and our long term goal to transition out of the market in 2039. These include Committees include the ExCo and its sub-committees; the Transition Sub-committee, Reinsurance and Securities Sub-committee and Investment Working Group.
- Further, as noted above, Flood Re's Risk Function (led by the Chief Risk Officer) and Transition Team (led by the Communications and Transition Director) initiated the work to analyse the projected number of homes that will be at high-risk of flooding out to the 2080s.
- Flood Re's CRO and Chief Actuary have also actively engaged with regulators to ensure stakeholders, such as insurance companies and mortgage underwriters, take into account the exit of Flood Re from the market in 2039. In December 2019, the Bank of England published for consultation a discussion paper 'The 2021 biennial exploratory scenario on the financial risks from climate change'.<sup>4</sup> Flood Re highlighted that the scenarios run until 2050 and the transition of the Flood Re Scheme out of the market in 2039 should be considered explicitly by insurers; i.e. pre-2039 where insurers can utilise the Flood Re Scheme to cede high flood risk properties, and post-2039 where they will need to review their underwriting approach.

<sup>3</sup> Flood Re 2020 Annual Report: <https://www.floodre.co.uk/wp-content/uploads/Flood-Re-Annual-Report-2020-FINAL.pdf>

<sup>4</sup> <https://www.bankofengland.co.uk/paper/2019/biennial-exploratory-scenario-climate-change-discussion-paper>

Participants in the BES exercise should explicitly ensure they account for the exit of Flood Re (and the flood risk transfer mechanism it provides to households) after 2039.

Similarly, given the long-term nature of banks' mortgage portfolios, consideration of the availability and cost of insurance in these scenarios both pre- and post-2039 should be drawn out in this exercise. Mortgages issued this year with greater than 20 year durations will run beyond the lifetime of the Flood Re Scheme.

Looking ahead, and as a direct outcome of the Strategy Day discussion mentioned earlier, the Transition team and Risk team at Flood Re are preparing a list of Leading Indicators to monitor and report on progress related to climate change and mitigation efforts aligned with the [Transition Strategy Buckets](#).<sup>5</sup> The intent is to report annually on the current position of each area of Transition in a similar manner to the Committee on Climate Change's Annual "[Progress Reports](#)". Example metrics Flood Re proposes to track are below. More details on this work are also described in section 3.1 below.

<b>Minimising the size of the highest risk group</b>	<u>UK</u> Properties at >1 in 75 year risk of flooding
<b>Adapt to the expected climate change pathway</b>	Actual GHG Emissions vs Climate Change Pathways (RCP's)

## 2. Incorporate climate-related issues into our strategies and investments

### 2.1. Evaluate the implications of climate change for business performance (including investments) and key stakeholders.

Climate Change and its implications for UK Flood Risk cuts across both aspects of the Flood Re Scheme's Strategic Purpose, namely to:

- (1) Promote the Availability and Affordability of flood insurance for eligible homes, while minimising the cost of doing so, and
- (2) 2039 Transition to risk reflective pricing for household insurance, for those households at risk of flooding.

In the case of the first element of Flood Re's purpose, the efficient operation of the Reinsurance Scheme in the short/medium term, the potential implications of climate change are:

- Further emergence of Climate Change and coincident impacts on UK Flood Risk;
- Behavioral changes on the part of ceding insurers; and/or
- Change in appetite of our outwards reinsurers

Each can impact the Scheme's forward looking risk profile and as such have been explicitly considered by the Flood Re leadership team (Board and Executive Committee) through a range of short/medium term stress and scenario tests (set out in Section 2.2 below).

With regards to the second aspect of our purpose, Climate Change clearly presents a long term threat to Flood Re's 2039 Transition Objectives, and specifically UK household flood risk. A longer

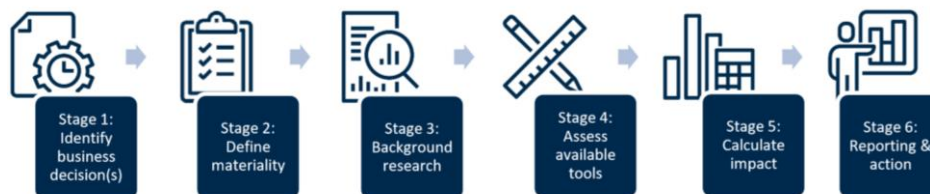
<sup>5</sup> Flood Re Our Vision: Securing a future of affordable flood insurance, page 5. See [https://www.floodre.co.uk/wp-content/uploads/2018/07/Flood\\_Transition2018\\_AW.pdf](https://www.floodre.co.uk/wp-content/uploads/2018/07/Flood_Transition2018_AW.pdf)

range, UK-wide (all properties) set of scenarios have been considered to assess the impact of various climate change pathways and public policy initiatives on 2039 transition. The results of this analysis are set out in Section 2.2 below.

The above assessments have focussed primarily on the potential for Climate Change to impact insured losses and the Scheme’s strategic objectives. With regards to asset-side impacts of climate change, given Flood Re’s highly conservative investment portfolio (UK Government backed short term deposits and Cash at Bank), there are limited market transition/“Minsky Moment” risks for Flood Re.

## **2.2. Measure and disclose the implications of climate-related issues for business performance (including investments) and key stakeholders. & 2.3 Incorporate the material outcomes of climate risk scenarios into business (and investment) decision making.**

As highlighted in the previous section over the course of 2019/20 we have assessed the implications of a range of Climate Change scenarios, impacting both elements of Flood Re’s Strategic Purpose. We have used the PRA’s [“Framework for assessing financial impacts of physical climate change”](#) as the common approach for each assessment, see the framework schematic below for the steps of each exercise:



Set out below are the details of each exercise and the approaches taken to disclose and share the results and next steps from each.

### **1) Climate Change - Operation of the Reinsurance Scheme (Short/Medium Term Risk)**

- **Comparison of UK Flood Models – Climate Change Modelling & GIST 2019:** Our first step in the last 12 months has been seeking to understand how UK Flood Risk may be impacted over a range of climate change pathways/emissions and response scenarios. This has initially focused on modelling the impact of Climate Change on Flood Re’s current portfolio to provide a base for comparing a selection of UK Flood models that incorporate climate change impacts. To further allow consistent comparison of the models’ assessment of Climate Change we also sought to fix the scenarios/GHG emissions scenarios being assessed, and used the PRA’s 2019 General Insurance Stress Test (2019 GIST) scenarios as the common base. The three GIST Scenarios considered a range of pathways and time periods

*Disclosure: The results of Flood Re’s 2019 GIST Climate Change Scenarios have been shared and discussed with the PRA and they have since published their [industry-wide feedback \(Annex 4\)](#). We have continued to engage with the PRA’s scenario and climate change teams to share our findings and approaches to assessing the impact of Climate Change on UK Flood Risk, particularly in the lead up to the Bank of England’s 2021 Biennial Exploratory Climate Change Scenarios (BES 2021).*

*Informed Decision Making: Results of the GIST 2019 analysis provided the basis for comparing various UK Flood Model's climate change projections and their various strengths and limitations in order to select the right tool for the job moving forward.*

- **Short / Medium Term Behavioural Changes of Key Counterparties (Insurers and Outward Reinsurers):** As the GIST 2019 exercise was industry-wide and required consistency of outcomes, it considered Flood Re's exposure as point in time and static. For our Own Risk and Solvency Assessment (2019/20 ORSA), we took this a step further to consider material behavioural change on the part of our major counterparties as a result of shifts in their view of climate change and UK Flood Risk.

For this more dynamic assessment we delivered a range of scenarios assessing the solvency implications of a shift in the risk appetite of both our ceding insurers (increased ceding to Flood Re as perception of UK Flood Risk changes) and our outwards Reinsurance counterparties (increased cost of outwards cover). Given our considerable capital position the Scheme remained well within its Solvency Risk Appetite Thresholds in each of the scenarios.

*Disclosure: Similarly to the 2019 GIST exercise, the Flood Re ORSA Report with the results of these scenarios has been shared with a range of stakeholders including the PRA and rating agency. A summary of our ORSA Stress and Scenario testing is included in our annual (publically published) Solvency and Financial Conditions Report (SFCR).*

*Informed Decision Making: The ORSA Climate Change stress testing analysis tested the scheme under a range of adverse scenarios to help inform our cycles of business planning and future decisions around structure of outwards RI and other business levers within Flood Re's control post QQR (Setting Levy 1, Liability Limit).*

## **2) Climate Change Implications for 2039 Flood Re Transition (Medium/Long Term Risk)**

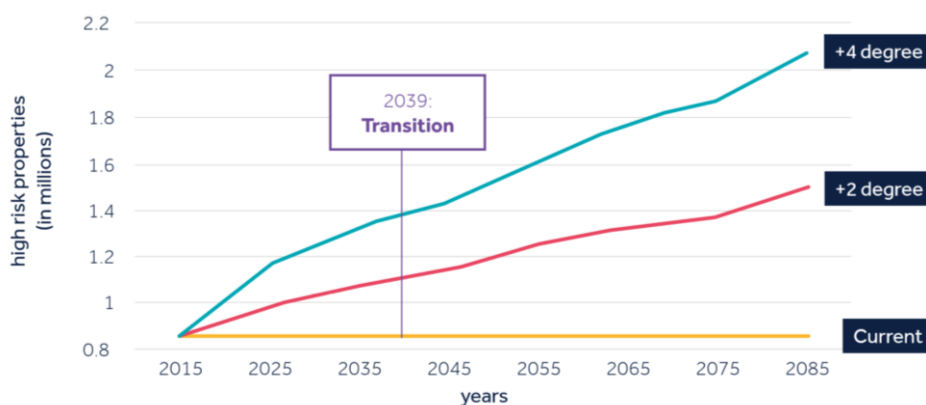
- To assess the longer-term impact of Climate Change on UK Flood Risk and hence risk to a successful 2039 Transition we worked with the model and results from the last Climate Change Risk Assessment (CCRA)<sup>6</sup>.

By 2039, assuming a four-degree warming scenario, 1.5 times as many properties may be at a high-risk of flooding, increasing from 860,000 to 1.3 million properties given current levels of adaptation/flood defence spend and low population growth (housing development).

---

<sup>6</sup> Climate Change Risk Assessment 2017 Projections of future flood risk in the UK, page 63  
<https://www.theccc.org.uk/publication/sayers-for-the-asc-projections-of-future-flood-risk-in-the-uk/>

**Projected number of UK properties at high-risk of flooding**  
(with a 1 in 75 or greater annual probability of flooding) by climate change scenario



*Disclosure: For an overview of our consideration and disclosure of the impact of Climate Change on Flood Re’s Strategic Objectives, see pages 26-29 of our [Annual Report \(YE 2019/20\)](#).*

*Informed Decision Making: Climate Change has been acknowledged as a key threat to a successful 2039 Transition since the launch of the Flood Re Scheme, and this analysis has further reinforced that point. The modelling has also provided us with the basis to consider other variables (including property development, increased flood defence spending) impacting UK household flood risk in 2039, and work through “what needs to be true” to manage these risks to Transition. This has in turn supported proposals in our first Quinquennial Review (Build Back Better) and our Transition Activity next steps.*

As will be detailed further below in principle 5, one proactive opportunity Flood Re sees from this work has been to increase its engagement with the planning sector to ensure that new homes and developments are not built in areas at high risk today or where risk is expected to increase in the future. In March 2020, Flood Re presented at the Town and Country Planning Association’s (TCPA’s) Spring Conference ‘Climate Change – game over?’ concerning the importance of incorporating assumptions of insurance availability in development.

### **3. Lead in the identification, understanding and management of climate Risk (25%)**

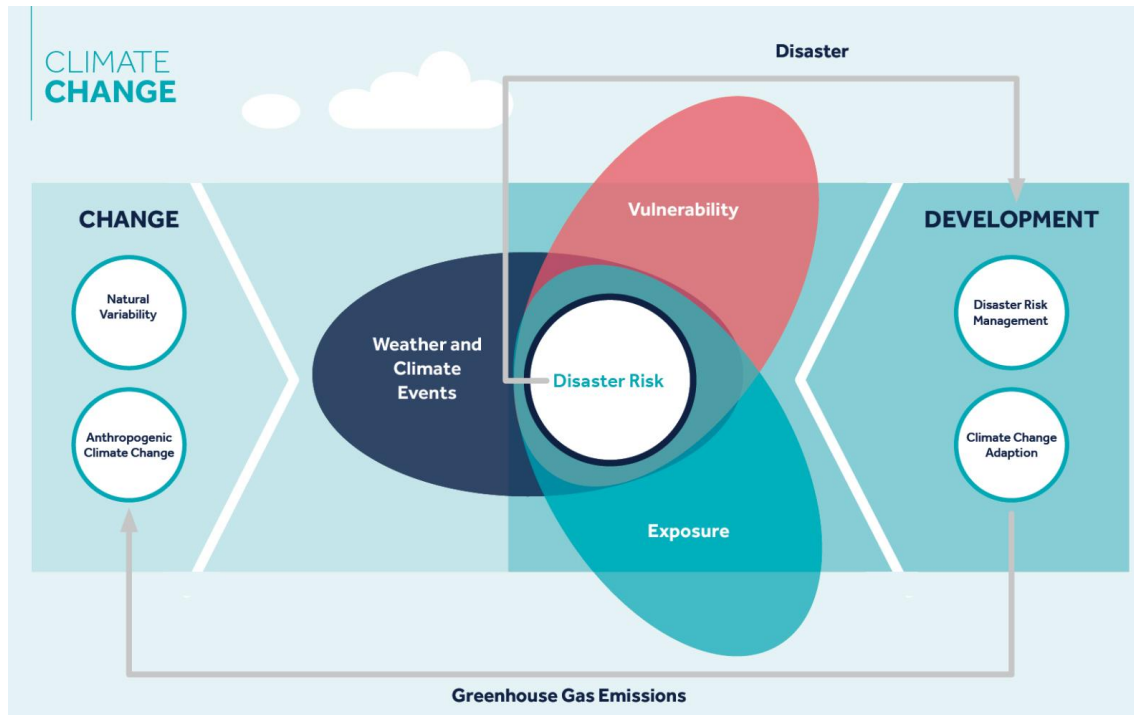
#### **3.1. Ensure processes for identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation (including investments).**

- Flood Re has a number of on-going and new processes to ensure we are identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation.
- On-going processes include an assessment against each of our objectives of the climate change impact. As mentioned earlier, within the 2020 Annual Report<sup>7</sup> details are found on pages 5-6 of the Statement by the Chair; pages 7-9 of the CEO Statement; and pages 20-21 of the Strategic Report. Within the section “Climate change impact on strategic objectives” we note the impact on insurers, reinsurance, transition, and banks. Further, in terms of monitoring the Annual Report highlights new climate metrics Flood Re is now methodically tracking, specifically:

<sup>7</sup> Flood Re 2020 Annual Report: <https://www.floodre.co.uk/wp-content/uploads/Flood-Re-Annual-Report-2020-FINAL.pdf>



“Flood Re will actively track observed climate change, climate change projections, levels of adaption and UK Government spending using data published at regular intervals by the Met Office, the National Adaptation Programme, the Committee on Climate Change and others. The complex relationship between the forces of higher CO<sub>2</sub> emissions, flood hazard, development, vulnerability, and adaptation is shown below in a diagram published by the Intergovernmental Panel on Climate Change.<sup>8</sup> Flood Re will only be able to transition out of the market to affordable risk-reflective prices if the centre ‘disaster risk’ area for the UK falls below the current level – the level which necessitated the market intervention enabled by the Scheme to reinsure UK flood risk.



Source: IPCC

Flood Re will continue to support stakeholders actively to improve risk mitigation and adaptation, while also seeking to ensure homeowners and property underwriters do not face a cliff edge at the end of the Scheme’s planned life.”<sup>9</sup>

### 3.2. Support and undertake research and development to inform current business strategies (including investments) on adapting to and mitigating climate-related issues.

- As mentioned in section 1, to further understand the impacts of climate risks, Flood Re’s Risk Function and Transition Team engaged with Sayers and Partners to use its Future Flood Explorer model (the same tool leveraged by the Committee on Climate Change for its “UK Climate Change Risk Assessment”) to analyse the projected number of homes that will be at high-risk of flooding out to the 2080s.
- The results of this analysis were the basis of the December 2019 Board and ExCo Strategy day mentioned above, which consciously shifted to focus on the medium- and longer-term risks to Transition. The exhibit shown above in response to principle 2.2 summarises the

<sup>8</sup> <https://www.ipcc.ch/site/assets/uploads/2018/03/fig1-1.jpg>

<sup>9</sup> Flood Re 2020 Annual Report: <https://www.floodre.co.uk/wp-content/uploads/Flood-Re-Annual-Report-2020-FINAL.pdf>



results of FFE’s combined scenarios which consider each of the aforementioned risks to transition (note that risks (3) Flood defence investment and (4) Property level resilience are captured under the 3rd variable “Adaptation”).

- The Transition Team also conducted research on social vulnerability and flood risk exposure to increase Flood Re’s understanding regarding flood vulnerability today and in the future due to climate change. The analysis examined the intersection of low income, exposure to flood risk and insurance take up at present and in the 2050s and 2080s.

Flood Re also commissioned an analysis of 702 home insurance claims for flooding from two insurers over the years 2013-2019 to enhance the evidence base around key factors affecting cost and duration of flood damage claims.<sup>10</sup> The work is intended to build the case to support broader take-up of property based resilience measures

- The Transition Team also conducted research on social vulnerability and flood risk exposure to increase Flood Re’s understanding regarding flood vulnerability today and in the future due to climate change. The analysis examined the intersection of low income, exposure to flood risk and insurance take up at present and in the 2050s and 2080s.

#### **4. Reduce the environmental impact of our business**

##### **4.1. Encourage our suppliers to improve the environmental sustainability of their products and services, and understand the implications these have on our business.**

- Flood Re is a small organisation and has only a few suppliers. Specifically, the company’s three main suppliers and their respective ESG strategies are as follows:
  - Guy Carpenter provides our reinsurance and we have been working with them to understand alternative investment structures that could be used to fund flood resilience infrastructure projects. Guy Carpenter is guided by Marsh & McLennan’s standards of conduct. The MMC Sustainability Leader has said, “By focusing on areas such as energy use in real estate and technology, product selection in our supply chain and consumption in our product and paper usage, we are making positive changes to reduce our environmental impact every day.”<sup>11</sup>
  - Capita provides a range of outsourced services to Flood Re including IT Service Provision and Claims management. They released a Responsible Business Report in 2019 and pages 19 to 21 highlight their environmental efforts. Specifically they note a 5.9% reduction in their carbon footprint from 2018.<sup>12</sup>
  - Landmark Information Group provides data supply concerning the UK’s property market. They have a Corporate Social Responsibility platform which highlights their environment efforts on pages 27 and 28.<sup>13</sup>

##### **4.2. Disclose our Scope 1, Scope 2 GHG emissions and Scope 3 GHG emissions using a globally recognised standard.**

- Flood Re is a 36-person organisation; and, like the ABI, has limited resources to measure our environmental impact in detail. Further, as the ABI has done, we will report our carbon footprint using the National Energy Foundation Carbon Calculator<sup>14</sup>, and plan to use this method going forward to enable comparability year on year. Our Baseline measure of the year of 2019 is 31.6<sup>15</sup> tonnes of carbon, note that we would expect this to fall in 2020 due to

<sup>10</sup> <https://www.floodre.co.uk/enhancing-the-evidence-base-for-property-flood-resilience/>

<sup>11</sup> <http://integrity.mmc.com/the-greater-good/we-build-trust-by-acting-responsibly?nav=menu>

<sup>12</sup> <https://www.capita.com/sites/g/files/nginej146/files/2020-05/capita-responsible-business-report-2019.pdf>

<sup>13</sup> <https://lmkcorp1.s3.amazonaws.com/s3fs-public/LIG-R-Policy-2016.pdf>

<sup>14</sup> <http://www.carbon-calculator.org.uk/>

<sup>15</sup> Note this calculation was updated as at 11.05.2021 following identification of an inconsistency in electricity/gas usage data sent by office providers. This calculation is being refined in 2021 to more completely capture drivers of Flood Re’s carbon footprint

all staff remote working for the majority of the year and no international travel since UK lockdown in March 2020. We are reviewing the lessons learned from this period to identify any changes in working which we will seek to continue in a post-COVID-19 environment which will include Flood Re's Carbon Footprint as one lens to be reviewed.

#### **4.3. Measure and seek to reduce the environmental impacts of the internal operations and physical assets under our control.**

- Flood Re does not maintain a large office and given the nature of our UK-only operations means travel requirements are very limited. Further, most employees take public transport or cycle to work. That said, one more recent development is that, COVID-19, as of March 2020, resulted in all staff remote working, and hence even this limited travel has ceased. This will continue for the foreseeable future further reducing the environmental impacts of the internal operations and physical assets under Flood Re's control.

#### **4.4. Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.**

- Flood Re conducted an environmental impact assessment in November 2018. The outcome of that review is as follows:
  - 'Office Waste Management (with Landmark) - Viridor waste management used for recycling – confidential waste is recycled. Recyclable items include plastics, paper, cardboard paper towels, batteries, and glass.
  - Travelling Carbon Footprint – Very limited international (flight) travel. Majority of the office was using public transport, walking or cycling into work as well as a number of staff members working from home periodically.
  - Stationary - Flood Re use the Commercial Group who are certified carbon neutral, and have a gold award to sustainability/recycling.
  - Paper – Flood Re orders 'Focus Cool Earth Club A4 Paper' as every ream purchased contributes to Cool Earth's campaign to prevent deforestation.
  - Catering – Pre-COVID Flood Re was using EAT for our catering and ordering from the nearby King William Street branch. EAT coffee cups are 100% compostable meaning you can put them in the food waste bins. EAT also donate as much left over food as possible to local charities.
  - Flood Re also stopped buying bottled water for external guests. Rather, pre-COVID, re-usable bottles were being used for all committees/catered meetings.
  - Finally, all Flood Re staff were provided a re-usable water and hot drink bottles/flasks to reduce use of "single use" plastic.
- Looking forward, Flood Re will encourage employees to turn off equipment in the evening to reduce GHG emissions when they are working at the office or at home.

### **5. Inform public policy making**

#### **5.1. Promote and actively engage in public debate on climate-related issues and the need for action. Work with policy makers locally, regionally, nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.**

- Flood Re has engaged and influenced public policy in many regards ranging from regulatory, environmental matters both domestically and abroad. Some highlights are as follows:
- UK - Regulatory:
  - As mentioned above, Flood Re's Chief Actuary and CRO has actively engaged with regulators to ensure stakeholders, such as insurance companies and mortgage underwriters, take into account the exit of Flood Re from the market in 2039. In December 2019, the Bank of England published for consultation a discussion paper

'The 2021 biennial exploratory scenario on the financial risks from climate change'.<sup>16</sup> Flood Re highlighted that the scenarios run until 2050 and the transition of the Flood Re Scheme out of the market in 2039 should be considered explicitly by insurers; i.e. pre-2039 where insurers can utilise the Flood Re Scheme to cede high flood risk properties, and post-2039 where they will need to review their underwriting approach. Participants in the BES exercise should explicitly ensure they account for the exit of Flood Re (and the flood risk transfer mechanism it provides to households) after 2039.

- UK – Policy (local, regional and national):
  - Flood Re provided input and policy recommendations on a number of key government strategy documents including the Environment Agency's National Flood & Coastal Erosion Risk Management Strategy Information<sup>17</sup> and The Draft National Strategy for Flood and Coastal Erosion Risk Management in Wales<sup>18</sup>.
  - Flood Re launched a Flood Risk Charter alongside the National Flood Forum at a Parliamentary event in November 2019. The Charter contains a list of recommendations designed to help communities feel safe in the face of the increasing threat of flooding. It calls for more funding to improve flood defences, further work to ensure coordination between flooding community groups and government agencies, and for Government policy to help address the mental and physical wellbeing of those impacted by flooding.
  - Flood Re also wrote a joint letter to the UK's Department for Environment, Food and Rural Affairs along with the National Infrastructure Commission and the Committee on Climate Change in support of the development of a national resilience standard that would promote place-based resilience by enhancing the capacity of people to plan for, better protect, respond to, and recover from flooding and coastal erosion risks.
  - Flood Re has also engaged with the planning community given the impact of new development on future flood risk to the housing sector. In March 2020, Flood Re presented at the Town and Country Planning Association's (TCPA's) Spring Conference 'Climate Change – game over?' concerning the importance of incorporating assumptions of insurance availability in development. Looking ahead, Flood Re will be working with the National Flood Forum and the TCPA to develop capability building workshops for local planners in at-risk communities.
- International:
  - In Autumn 2019, Flood Re's Director of Operations spent a week with Public Safety Canada to discuss the development of a flood insurance pool, using the lessons learnt during the creation of Flood Re.
  - The discussions focused on mapping and modelling, the political environment and the nature of the insurance market in Canada, identifying the similarities and differences between the Canadian and UK situations, and how that would influence the nature of any solution.

**5.2. Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests. Where appropriate, share this research with scientists, society, business, governments and NGOs in order to advance a common interest.**

<sup>16</sup> <https://www.bankofengland.co.uk/paper/2019/biennial-exploratory-scenario-climate-change-discussion-paper>

<sup>17</sup> <https://consult.environment-agency.gov.uk/fcrm/fcrm-national-strategy-info/>

<sup>18</sup> <https://gov.wales/sites/default/files/consultations/2019-06/consultation-document-flooding-strategy.pdf>

- As mentioned above, Flood Re devotes significant resources collaborating and/or providing expert input on policies developed by stakeholders such as the Bank of England, the ABI, the Environment Agency, the Committee on Climate Change, the National Infrastructure Commission, the Canadian government, academics and consultants concerning the implications of climate change on the insurability of homes. Specific research conducted touched on the following topics:
  - Future housing risk - As mentioned in section 1 and 3, to further understand the impacts of climate risks, Flood Re’s Risk Function and Transition Team engaged with Sayers and Partners to use its Future Flood Explorer model (the same tool leveraged by the Committee on Climate Change for its “UK Climate Change Risk Assessment”) to analyse the projected number of homes that will be at high-risk of flooding out to the 2080s. This work was discussed at Flood Re’s December Board Strategy Day and led directly to the company’s engagement with the planning sector and with the Bank of England.
  - Social vulnerability - Flood Re also investigated research on social vulnerability and flood risk exposure to increase its understanding regarding flood vulnerability today and in the future due to climate change. The analysis examined the intersection of low income, exposure to flood risk and insurance take up at present and in the 2050s and 2080s.
  - Claims analysis to support property-based resilience - Flood Re also commissioned an analysis of 702 home insurance claims for flooding from two insurers over the years 2013-2019 to enhance the evidence base around key factors affecting cost and duration of flood damage claims.<sup>19</sup> The work is intended to build the case to support broader take-up of property based resilience measures and will be shared with insurers and flood forums throughout the UK. The University of the West of England, Bristol completed the analysis and found the following:
    - “Low-cost recoverable packages (designed to limit damage once water enters a home, such as resilient plaster and floors) could be appropriate for a large proportion of flooded homes. Packages that do not protect kitchens, windows and doors can be effective as these were not replaced in the majority of sampled claims.
    - Low-cost passive resistance packages (designed to limit the water entering the home, such as self-closing airbricks, non-return valves, sealing brickwork and flood doors) could also be considered for a large proportion of properties because depth of flooding is below 300mm in the majority of sampled claims.
    - Damage from deep and prolonged flooding can cost nine times as much to repair compared to shallow, shorter-duration flooding. Therefore, higher cost measures may be cost-beneficial for severely flooded homes.
    - A combination of recoverable and resistant measures can be considered for homes subject to deep and prolonged flooding because limiting water depth and duration (where possible) could avoid the high cost for future floods as well as reducing return to home time.
    - Installing a resilient kitchen may be beneficial where a kitchen is being replaced after flooding, because kitchens cost more than previously thought, and families are more likely to be relocated if their kitchen needs replacing.”<sup>20</sup>
  - Feasibility of Flood Performance Certificates - Flood Re commissioned WPI to explore the feasibility of introducing a tool to grade a home’s resilience similar to

<sup>19</sup> <https://www.floodre.co.uk/enhancing-the-evidence-base-for-property-flood-resilience/>

<sup>20</sup> <https://www.floodre.co.uk/enhancing-the-evidence-base-for-property-flood-resilience/>

an EPC. The report has been shared with Government, flood forums, academics, and the insurance industry. Flood Re is now commencing an engagement campaign to encourage the take up of the policy to drive penetration of resilience measures in homes.

## **6. Support climate awareness amongst our customers/ clients**

### **6.1. Communicate our beliefs and strategy on climate-related issues to our customers and/or clients.**

- As mentioned previously, the most recent release of Flood Re’s Annual Report is the best example of its views regarding climate change to insurers, government and to the public. Within the 2020 Annual Report<sup>21</sup> details are found on pages 5-6 of the Statement by the Chair; pages 7-9 of the CEO Statement; and pages 20-21 of the Strategic Report.
- As mentioned previously in 5.1 public policy section Flood Re has taken the following steps:
  - Flood Re’s CRO has also actively engaging with regulators to ensure stakeholders, such as insurance companies and mortgage underwriters, take into account the exit of Flood Re from the market in 2039. In December 2019, the Bank of England published for consultation a discussion paper ‘The 2021 biennial exploratory scenario on the financial risks from climate change’.<sup>22</sup> Flood Re highlighted that the scenarios run until 2050 and the transition of the Flood Re Scheme out of the market in 2039 should be considered explicitly by insurers; i.e. pre-2039 where insurers can utilise the Flood Re Scheme to cede high flood risk properties, and post-2039 where they will need to review their underwriting approach. Participants in the BES exercise should explicitly ensure they account for the exit of Flood Re (and the flood risk transfer mechanism it provides to households) after 2039.
  - Flood Re provided input and policy recommendations on a number of key government strategy documents including the Environmental Agency’s National Flood & Coastal Erosion Risk Management Strategy Information<sup>23</sup> and The Draft National Strategy for Flood and Coastal Erosion Risk Management in Wales<sup>24</sup>.
  - Flood Re launched a Flood Risk Charter alongside the National Flood Forum at a Parliamentary event in November 2019. The Charter contains a list of recommendations designed to help communities feel safe in the face of the increasing threat of flooding. It calls for more funding to improve flood defences, further work to ensure coordination between flooding community groups and government agencies, and for Government policy to help address the mental and physical wellbeing of those impacted by flooding.
  - Flood Re also wrote a joint letter to the UK’s Department for Environment, Food and Rural Affairs along with the National Infrastructure Commission and the Committee on Climate Change in support of the development of a national resilience standard that would promote place-based resilience by enhancing the capacity of people to plan for, better protect, respond to, and recover from flooding and coastal erosion risks.
  - Flood Re has also engaged with the planning community given the impact of new development on future flood risk to the housing sector. In March 2020, Flood Re presented at the Town and Country Planning Association’s (TCPA’s) Spring Conference ‘Climate Change – game over?’ concerning the importance of

<sup>21</sup> Flood Re 2020 Annual Report: <https://www.floodre.co.uk/wp-content/uploads/Flood-Re-Annual-Report-2020-FINAL.pdf>

<sup>22</sup> <https://www.bankofengland.co.uk/paper/2019/biennial-exploratory-scenario-climate-change-discussion-paper>

<sup>23</sup> <https://consult.environment-agency.gov.uk/fcrm/fcrm-national-strategy-info/>

<sup>24</sup> <https://gov.wales/sites/default/files/consultations/2019-06/consultation-document-flooding-strategy.pdf>

incorporating assumptions of insurance availability in development. Looking ahead, Flood Re will be working with the National Flood Forum and the T CPA to develop capability building workshops for local planners in at-risk communities.

- Other recent and future outreach on climate change include the following:
  - In June 2020, Flood Re was a sponsor of the National Planning Summit 2020 and led a presentation on the Importance of Future Insurance Availability in Development. The presentation was followed by a panel discussion on “Climate Change: How are Planners Delivering Sustainable Development in the Face of the Climate Crisis?”
  - In July 2020, Flood Re CEO Andy Bord welcomed the Green Homes announcement and called for it to include help for householders to install property flood resilience measures. Coverage of the comment was picked up in:
    - Insurance Times - Climate change threatens Flood Re 2039 market exit target<sup>25</sup>
    - Simple News - Insurance industry reacts to Chancellor’s statement<sup>26</sup>
    - Insurance Business UK - Insurance industry reacts to Chancellor’s statement<sup>27</sup>
  - Looking ahead, Flood Re will be presenting at The-Women’s-Insurance-Net-Work (TWIN) on climate change in August.<sup>28</sup>
  - Flood Re will also be participating in a number of events at the rescheduled COP-26 in Glasgow in November.<sup>29</sup>

## **6.2. Inform our customers and/or clients of climate-related risks and provide support and tools so that they can assess their own levels of risk.**

- Other recent actions taken by Flood Re include supporting dissemination of the ‘Know Your Flood Risk’ campaign and co-investing with the EA in their ‘What the Flood’ campaign with actions ‘Prepare. Act. Survive. Flood guide.’<sup>3031</sup>

## **7. Enhance reporting**

### **7.1. Submission against the ClimateWise Principles.**

- Flood Re has submitted its report against all ClimateWise sub-principles on time and in full.

### **7.2. Public disclosure of the ClimateWise Principles as part of our annual reporting.**

- Flood Re’s Annual Report also mentions this as follows:
  - “Joined ClimateWise, a consortium of academic and insurance providers working to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap. ClimateWise published its first Principles Review since the framework was aligned with the Taskforce for Climate-related Financial Disclosures (TCFD).”<sup>32</sup>

<sup>25</sup> <https://www.insurancetimes.co.uk/news/climate-change-threatens-flood-re-2039-market-exit-target/1433814.article>

<sup>26</sup> <https://simplenews.co.uk/foreign/insurance-industry-reacts-to-chancellors-statement/>

<sup>27</sup> <https://www.insurancebusinessmag.com/uk/news/breaking-news/insurance-industry-reacts-to-chancellors-statement-227350.aspx>

<sup>28</sup> <https://www.the-womens-insurance-net-work.com/>

<sup>29</sup> <https://www.ukcop26.org/>

<sup>30</sup> <https://www.knowyourfloodrisk.co.uk/>

<sup>31</sup> EA campaign details:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/873033/Withdrawn\\_200311\\_Flood\\_Action\\_Campaign\\_support\\_us.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873033/Withdrawn_200311_Flood_Action_Campaign_support_us.pdf)

<sup>32</sup> Flood Re Annual Report: <https://www.floodre.co.uk/wp-content/uploads/Flood-Re-Annual-Report-2020-FINAL.pdf>

- Flood Re will post its ClimateWise Principles report on its website.<sup>33</sup>

---

<sup>33</sup> <https://www.floodre.co.uk/>