

## BRIEFING

# Water Bill: Flood insurance

What are the social implications of the Flood Re insurance policy and how can these be addressed in the Water Bill?

### Key points:

- JRF wants to see flood insurance remain affordable and available to high-risk households in the future.
- The Water Bill offers a short-term, temporary solution to the problem before market-based mechanisms determine insurance costs. This poses future risks for high-risk households of unaffordable premiums unless flood resilience is developed in the interim.
- The Flood Re insurance mechanism and wider flood risk management policy should be used to support the development of flood resilience for households in the interim.
- Introducing a social mandate as part of the public interest mechanism could assist in this process.

The Joseph Rowntree Foundation (JRF) is one of the largest social policy research and development charities in the UK. For over a century we have been engaged with searching out the causes of social problems, investigating solutions and seeking to influence those who can make changes. JRF's purpose is to understand the root causes of social problems, to identify ways of overcoming them, and to show how social needs can be met in practice. The Joseph Rowntree Housing Trust (JRHT) shares the aims of the Foundation and engages in practical housing and care work.

## Background

JRF has been conducting research on climate change and social justice since 2009. In this context we have been considering social vulnerability to flooding in the UK and examining the future of flood insurance as an important safety net for people who may be affected by flooding.

Our overall view is that we need to ensure that future flood insurance is affordable and accessible, and that the policy approach followed takes proper account of issues of social justice (to consider social vulnerability, poverty and disadvantage and to develop equitable policy responses that take account of this).

JRF research by Lindley et al (2011) summarises some of the important social impacts of flooding and how it may affect people's overall well-being, the health impacts, stress and anxiety linked to the event and dealing with insurance and recovery, as well as possible disruption to children's education, the need to relocate, potential impacts on family relationships and so on. The work also develops an index of socio-spatial vulnerability and maps the different levels of social vulnerability in different localities across the UK – it highlights how different levels of vulnerability will affect how far flooding may lead to a loss in people's welfare and that the impacts may be felt differently by different communities due to their different vulnerability.

JRF's Viewpoint report, *Social justice and the future of flood insurance* (O'Neill and O'Neill 2012), sets out the argument on what approach to flood insurance policy would meet the demands of social justice. It highlights the limitations to a market based approach to future flood insurance and the negative potential outcomes for social justice of moving towards fully risk-reflective pricing for flood insurance. It highlights the potential for property blight linked to unaffordable insurance and the wider implications for households and wider communities if people are unable to sell their homes and some areas may become neighbourhoods for those with least choice in the housing market.

In this context, JRF is concerned that the Flood Re proposals set out in the Water Bill are only a short-term solution, with the Government intention of moving to a market-based, risk-reflective pricing model in the longer term.

We are concerned that there has not been greater consideration of the potential for a stronger state role, such as that applied in many other comparable countries (e.g. France, Spain, Iceland, etc.) and whether the chosen approach, which relies heavily on funding reinsurance, offers good value for money when compared to other models, which are able to take advantages of the savings of scale and coordination that can be made possible by giving a larger role to the state.

In spite of these reservations, we recognise that the preferred model of Flood Re is an attempt to provide a collective response to support those households at highest flood risk. We welcome this, as it supports our view that we need a collective response to deal with vulnerability, in order

to avoid potential housing blight in areas of highest risk, and resulting social problems, if flood insurance becomes unaffordable.

### **General concerns**

The JRF remains concerned about several aspects of policy:

- eligibility thresholds for council tax bands to target households;
- excluded households;
- the ability for levied funds in Flood Re to be used for the public interest to support transitions to greater resilience.

### **Eligibility thresholds for council tax bands to target households**

JRF recognises that there is no easy solution to targeting support to take account of insurance affordability for different households without greater clarity from insurance providers about who is categorised as at highest risk in setting premiums. The council tax threshold link provides a practical approach to seeking to take account of affordability linked to the housing context of different households.

We have some reservations about current council tax bandings and their link to house values as the bandings are very out of date. In other work, JRF has called for council tax bands to be updated reflecting the increase in house prices since 1991 as well as wider concerns about its role as a tax in the housing market (Stephens and Williams, 2012).

However we recognise this may be the best practical solution that can be applied which is feasible to administer. JRF has therefore identified the breakdown between income and council tax bands across the UK which should be considered in the affordability of the eligibility thresholds proposed (unpublished, available on request).

This analysis shows that across the UK there are low income households in all council tax bands but with particularly high numbers of people in the lowest income deciles (deciles 1 and 2) living in Bands A-C. Over 2 million low income households are in Band A, over 1 million in Band B and just under 850,000 in Band C (unpublished data analysis for JRF). Without understanding the income situation of those households who are most at risk and who will be eligible for the Flood Re pool, it is difficult to assess how affordable the proposed premiums will be for any household. However, this analysis suggests there are substantive numbers of low-income households in all these three council tax bands, not just Bands A and B, an issue which should be considered in premiums set.

Research for the Scottish Government has also indicated that average premiums across a survey sample of 157 households for buildings and contents insurance combined were just under £400 but that low income households (on under £11,000) were concerned there may be affordability problems if premiums increased by up to £200 (Ball et al 2012). The proposed overall price of at least £650 for council tax band A properties is an increase of nearly £250 on the average premium found in this survey and substantively more than average figures identified in the impact assessment.

Based on this analysis we question whether the premiums set are necessarily affordable for low-income households.

The analysis suggests:

- There may be a need to review the thresholds for council tax bands A to C and to consider whether figures can be adjusted to reduce premiums in order to increase affordability to protect low income households
- Consideration should be given to whether a small increase in the proposed levy could make a major difference to increase affordability for these groups. If the levy were to be increased by, say, £2-5 and the balance redistributed to Bands A to C categories, what impact would that have?
- Options include either decreasing the subsidy to higher council tax bands or increasing the levy from other householders or a combination of both.

*We suggest further work is done to review the thresholds to see if it is possible to increase affordability across Bands A to C.*

In addition while the approach uses council tax bands as a proxy for considering affordability it does not address wider social vulnerability factors that may affect high-risk households. JRF research suggests flood vulnerability is affected by other issues including individual characteristics, the nature of the built environment and people's adaptive capacity (Lindley et al 2011). Elderly people, those with poor access to services, transient populations and others may all have greater vulnerability in relation to flooding. This needs consideration to see if targeted mitigation is needed over and above the proposals.

*A greater focus on area/community based responses to reduce risk in areas of high levels of social vulnerability and exposure to flood risk may be important in reducing risk for vulnerable households.*

## **Exclusions**

### **a) Small businesses**

We are concerned about how repeated flooding could affect insurance premiums for small businesses. Further research is needed to understand the scale of problems faced by businesses of risk-reflective pricing. We would also suggest consideration is given to the implications of costly insurance for the future operation of businesses in high-risk areas, especially in small communities, where they may not only provide an important economic function but are also central to the functioning of the community. The issue of the relationship between excesses and premiums will also be important in recovery for small businesses. We are unsure how some small businesses may be treated, such as self-employed households working from home, or bed and breakfasts, and whether they will be able to access Flood Re. Private landlords also have an important role to play in protecting their tenants through holding appropriate insurance and Government should encourage this.

*Clarity is needed on whether Flood Re will cover businesses operating from a home.*

### **b) Band H properties**

The disproportionate impact of including Band H properties in the Flood Re proposal is understood. Our analysis suggests there are only around 14,000 households in the two lowest income deciles who live in Band H properties across the UK, suggesting a very small number of asset-rich income-poor households overall in this council tax band. It is unclear how many, if any, of these households might live in areas of high flood risk and are therefore likely to be in the pool but we can assume that it would only be a small proportion of this number.

Overall across the bands, however, there will still be asset-rich, income-poor people, who may be vulnerable for other reasons, for example, elderly people, so mitigation may need to be considered.

As noted above, there may be a case for area/community based interventions to address high social vulnerability to flooding. Interventions could include support to gain the best insurance deal, participation in community approaches to reduce flood risk, support with property level protection if applicable or other measures which could reduce flood impacts.

*We suggest this exemption if maintained could be supported through targeted mitigation measures.*

### **c) New homes built after January 2009**

We are concerned about whether the exclusion of new homes from 2009 may leave some high-risk households unprotected.

We recognise there may be a case for encouraging risk reduction in building of new developments in flood risk areas and that the Environment Agency's role as a consulted in the planning process

should support effective decisions. However, we are concerned that the Adaptation Sub Committee of the Committee on Climate Change (ASC) reported in 2012 that:

*Development in the flood plain increased by 12% (210,000 properties), compared to 7% in the rest of England over the past ten years. One in five of these properties were built in areas of the floodplain at greatest risk of flooding.*

They also suggest that four times as many households and businesses in England could be at risk of flooding in the next 20 years if further steps are not taken to prepare for climate change (ASC, 2012).

We need to better understand how far planning authorities are ensuring risk reduction in the light of potential future climate change impacts in planning decisions. We suggest further monitoring through the ASC, to assess and understand the extent to which new developments are still occurring in high risk areas, what flood resilience works are being undertaken and the nature of households affected. This should consider issues of both pluvial and fluvial flood risk. For instance we need to understand how far potentially more vulnerable, low income households may be ending up living in these developments in social or affordable housing. We understand that planning regulations in Scotland may be stronger than in England in reducing risky development and there may be lessons to learn on this (O'Neill and O'Neill 2012).

*We think there may be a case for not beginning any exclusions until 2015 rather than 2009 in light of changes in flood risk particularly in relation to new understandings of surface water flood risk (with new maps from the Environment Agency denoting exposure published in 2013) and changes in extreme weather with climate change.*

#### **d) 'Uninsurable properties'**

We are unclear of the benefits of excluding any particular properties as this appears to enable insurance companies to make decisions not to offer provision, which goes against the principle of ensuring insurance remains available and affordable.

*We suggest this exemption should be removed.*

#### **Developing longer-term flood resilience**

While we recognise a shift to risk-reflective pricing should act as an incentive for reducing risk, we are unclear whether the need to reduce risk will be addressed sufficiently for the 500,000 homes identified as potential users of the Flood Re pool over the period of the proposed transition of 20-25 years or who will be ensuring that a transition to resilience is achieved over this period.

We recognise that the direction of policy has been to move away from a focus primarily on engineering of flood defences to one of sustainable flood risk management and for an increasing

expectation that communities and individuals will take steps to manage their own risk (Ball et al, 2013). However, we note the continued development of new homes in floodplains in England (ASC, 2012) and question whether the planning system and associated regulations could be strengthened to avoid continuing new building in risky areas (O'Neill and O'Neill, 2012). There is also a need to increase resilience of existing housing developments in high risk flood areas (Houston et al 2011).

The Government needs to clarify how risks will be reduced over the 20-25 year period of Flood Re.

We are concerned about how responsibility for different solutions will be developed and applied at different levels (household, community, state) to reduce risk, particularly as climate change is expected to increase flood risk and we are concerned that it may be inappropriate or inadequate to rely on property level protection in some instances. The difficulty of addressing pluvial flooding in particular, where the risks of exposure are less well understood than in relation to fluvial (river) flooding, needs further consideration. JRF research suggests that by 2050, 3.2 million people in urban areas could be at risk from pluvial flooding, an increase of 1.2 million. This increase is composed of an additional 300,000 due to climate change and 900,000 due to population growth. (Houston et al 2011).

We wonder if there is a need to do more to support area-based solutions alongside Flood Re, based on an analysis of where there is high social vulnerability to flood risk and a high risk of exposure (for example see Lindley et al 2012 as well as the Government's own UK Climate Change Risk Assessment). This would require identification of the priority areas which may need further interventions to reduce risk, taking account of existing initiatives, including the Defra resilience pathfinders. This could help to reduce risk for the communities of most concern over the period of the Flood Re arrangement, although any approach would also need to be alive to changing patterns of risk.

*We support calls to consider whether any excess Flood Re funds could be used to facilitate the development of greater flood resilience and whether policy to 'act in the public interest' can support a more proactive social role for Flood Re funds.*

## **Concluding comments**

As we enter the final stages of the Water Bill we need to ensure that the future flood insurance policy element is fit for purpose and that the approach is not merely a short term solution to an ongoing problem of affordable flood insurance for high risk households. As our understanding of surface water flood risk increases and climate change increases the likelihood of extreme flooding, we need to be building longer-term flood resilience.

It is an important question for policy whether the Flood Re mechanism is seen purely as a financial reinsurance vehicle or whether there are wider social goals that need to be addressed through

financial signals to manage flood risk, reduce claims longer term and provide better protection for those at risk. Surrounding flood risk management policy will be critical in overall risk reduction.

## References

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Unpublished analysis of income and council tax band thresholds produced for JRF by Chris Leishmann (due to be published in March 2014).

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