

A short guide to Flood Re

Flood Re is being taken forward to help households at the highest risk of flooding with the cost of the part of their home insurance which relates to flood risk. Households in flood risk areas are more likely than in the past to be charged a premium that reflects their risk of making a claim. While in the long-term this will help build greater awareness of flood risk, and encourage appropriate steps to be taken to reduce the risk of flooding, in the shorter term many households might have struggled to afford ongoing cover. Flood Re will provide transitional support over a 25 year period; this will provide time for choices to be made and risk management action to be taken.

Flood Re will be a not-for-profit reinsurance body, run and managed by the insurance industry. The scheme will effectively limit the cost of flood insurance for properties at the highest risk, with the level of the premium varying according to the Council Tax band (or equivalent) of the property. Flood Re is only intended to cover those properties most at risk - if a property is not at high flood risk, we expect the market will provide insurance at more competitive rates. It has been estimated that around 1-2% of domestic households might benefit from being reinsured through Flood Re.

Insurers will maintain a direct relationship with their customers, with policyholders paying premiums and making claims directly to the insurer. However, if an insurer calculates that the flood risk element of a policy will cost more than the premium set under Flood Re, that insurer can cede the flood risk part of the policy to Flood Re. In the event of a flood, the insurer would pay the claim to its customer and seek reimbursement from Flood Re.

Funding for the scheme will come from premiums and a levy, which will be raised from insurers according to their market share. The levy will be set at a level that replicates the cross subsidy that already exists in the market (currently, all domestic policyholders subsidise 'at-risk' policyholders). This will be £180 million each year for the first five years of the life of the scheme, and subject to review thereafter.

For more information on Flood Re, see the previous consultation, "Securing the future availability and affordability of home insurance in areas of flood risk", which is available at: <https://consult.defra.gov.uk/flooding/floodinsurance> and the Water Act 2014, available at: <http://www.legislation.gov.uk/ukpga/2014/21/section/64/enacted>. Details of the intended scope of Flood Re is set out in a briefing note which is available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/292353/water-bill-flood-insurance-scope-flood-re.pdf

How Flood Re works

