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**The Rt Hon Owen Paterson MP**  
From the Secretary of State

### Flood Re and resilience

Thank you for your letter of 4 April 2014 outlining your support for the Government's preferred approach to flood insurance and suggesting how Flood Re might be used to increase households' resilience to flooding in the future. May I begin by apologising for the delay in responding to you.

I welcome your support for Flood Re and agree with the sentiment of many of your comments. It is vital that Flood Re doesn't just deliver affordable flood insurance, but also contains the right incentives for households and insurers to put in place the necessary measures to become more resilient.

To this end amendments were made to the Water Bill at Report stage in the House of Lords. They were designed to ensure that insurers can pass on information to their customers about the withdrawal of the Flood Re subsidy over time and how to access information about their flood risk and manage it. We have agreed the principle that insurers will be required to provide this information both when a property is first ceded to Flood Re and at the point of a claim.

Where there are simple measures that households can take after a flood to improve their resilience at no extra cost then the insurance industry should be taking all possible steps to encourage this. Many insurers already do this and we will work with the industry to encourage this as best practice.

With regards to the possible uses of Flood Re's reserves, any reserves that build up during the lifetime of Flood Re will primarily be used to pay flood claims. It would not be appropriate to make a commitment now for Flood Re to spend a proportion of reserves in



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a certain way, thereby potentially increasing the amount of capital it is required to hold on an ongoing basis with associated impact on the cost of the scheme.

Nonetheless in the event that surplus reserves build up it is entirely right that there should be clarity on the principles around how they would be dealt with. We therefore intend to set out in more detail in secondary legislation our expectations of the issues that Flood Re's transition plan should cover. This will include the point that Flood Re could encourage and incentivise policyholders to make their properties more resilient to flooding to support households to prepare for risk-reflective pricing. Flood Re will develop its transition plan (which will be a public document) prior to the scheme's inception. We will not designate Flood Re unless we are satisfied with the industry's proposals.

In all of this however we must not lose sight of the primary reason why Flood Re has been developed. The scheme is designed to ensure those at the highest risk of flooding are able to find affordable insurance. If Flood Re did not cover the full cost of claims it would remove certainty for households about the price they would be expected to pay and households at the highest risk might not be able to find cover at an affordable price or at all.

With regard to the exclusion from the scheme of properties build after 1 January 2009, this cut-off date carries forward the approach that was agreed for the 2008 Statement of Principles. Surface water flood mapping has been available to local planning authorities for several years and should form part of the evidence base for their Strategic Risk Assessments. Properties built after 2009 should therefore already be insurable at affordable prices. Anyone purchasing a property should check their flood risk by commissioning property surveys and searches or by requesting surface water information from their Lead Local Flood Authority.

Finally you asked whether insurers' claims data could be used to inform our understanding of flood risk, I am pleased to say that this formed part of our Memorandum of Understanding with the Association of British Insurers published in June 2013. Work is ongoing to develop the claims database and make it available to the Environment Agency to help them improve flood risk models and better target flood defences to those areas most at risk.

The Water Act received Royal Assent on 14 May. However, there will be further consultations during the implementation phase, for example on the secondary legislation, and I would encourage you to continue to contribute to the development of the scheme as we take it forward.



**THE RT HON OWEN PATERSON MP**

