Department for Environment, Food & Rural Affairs
Amendments to the Flood Re Scheme

Response from AXA UK

1. AXA UK (AXA) is part of the AXA Group, a worldwide leader in financial services, operating in 54 countries with over 153,000 employees and 104 million customers. AXA has around 8 million customers in the UK and operates through specific operating companies – AXA Insurance and AXA Health.

Executive Summary

2. AXA UK welcomes the opportunity to provide input into the DEFRA consultation on Amendments to the Flood Re Scheme. AXA is one of the UK's largest home insurers and is a part of DEFRA's Flood Resilience Group. AXA regularly attends local flood forums to support customers, and to share learnings from flood events and how responses to future flood events from local authorities, government and insurers can be improved.

3. AXA were one of the first insurers to go live with Flood Re enabling customers through both our Direct and Broker channels to gain access to affordable cover. AXA considers Flood Re as an incredibly important scheme which provides a competitive insurance market for high-flood risk homes enabling householders to access affordable flood cover. Since its launch in 2016, 300,000 households have benefitted from the scheme. AXA recognises that government is assessing measures to ensure Flood Re can meet its objective of managing a transition of the household insurance market back to risk reflective pricing by 2039.

4. Collecting robust data and evidence about the effectiveness, cost and proportionality of resilience measures, and making this data available to insurers, is crucial to helping the industry have confidence in the effectiveness of Property Flood Resilience (PFR) measures and take them into account, as well as ensuring appropriate measures are used.

5. While AXA is supportive in principle of 'Build Back Better' repairs, further work is required to assess how this proposal would work in practice, including consideration of data and evidence collection, the speed of reinstatement, the inherent cross-subsidy between those that are not at flood risk and those that are, maintenance of PFR measures and the need to maintain a competitive insurance market. Furthermore, any proposals to expand the use of Flood Re funds must be robustly supported by a cost-benefit analysis that demonstrates how the proposals will support this objective.

6. It should be emphasised that measures that promote individual property PFR must be part of a holistic approach to managing flood risk led by central government including planning, building regulation reform, flood defence investment and improved public awareness and education.

Questions

Question 1
How far do you agree or disagree that Flood Re should offer discounted premiums for householders who have installed PFR?

7. AXA neither agrees nor disagrees that Flood Re should offer discounted premiums for householders who have installed PFR.

8. AXA is supportive of effective PFR for homes, businesses and local communities. With Flood Re due to end in 2039, it is increasingly important for properties to become more flood resistant and resilient to ensure insurance can be sustainable, available and affordable as the market returns to risk reflective pricing. The incentivisation of PFR measures could be one element of the approach to flood resilience and AXA welcomes the Government's intent to remove barriers to the uptake of PFR measures.

9. While AXA agrees that stakeholders should consider incentives for householders to install PFR, there are some important considerations with regards to installation, maintenance and data recording to ensure the effectiveness of such an incentive.

10. Discounted premiums will depend on the level of PFR installed and how confident an insurer can be that the actions taken will be suitable in the future. Insurers will need to be confident that PFR measures will reduce the frequency and / or severity of flooding and remain fit for purpose. For PFR measures to be effective they must be holistic and consider the characteristics of the property e.g. likely flood source and property construction and the needs of a homeowner or businessowner.

11. Measures must be installed by a qualified person in accordance with relevant standards and maintained appropriately. AXA has been consistently supportive of initiatives aimed at enhancing the competency of installation of PFR measures, such as the Property Flood Resilience Code of Practice, which launched in January 2020, and associated guidance for how standards should be met, launched earlier this year. Insurers require confidence in the competency of those installing PFR and AXA would welcome any further steps by Government and Flood Re in order to instil that confidence.

12. Furthermore, controls will be necessary around the maintenance of PFR measures and the long-term funding for ensuring maintenance can take place for all property owners, whether eligible for Flood Re or not. Government should consider the maintenance requirements of some PFR measures as part of this review.

13. Encompassing the aforementioned points is a need for data and evidence. The collection of data and evidence about the presence and effectiveness of resilience measures within properties and making this data available to insurers and homeowners would not only be a welcome step forward but is pivotal to both proposals outlined in this consultation. With regard to effectiveness, AXA believes Flood Re should share with insurers evidence and rationale on the impact of PFR measures to improve understanding around the proportional benefits of PFR investment and the comparative success of different types of PFR.

14. Improving the flood resistance and resilience of UK housing stock cannot be solely delivered by Flood Re and commercial insurers. As part of a holistic approach to flooding, AXA along with other insurance industry stakeholders, has consistently called on Government to:

A) Commit to a long-term, increased investment of at least £1.2billion per year on flood defence capital and maintenance spending
B) Ensure there are no inappropriate developments in flood risk areas;
C) Encourage a more transparent and accountable planning application process with clear monitoring and reporting by Local Authorities on planning decisions. Any commitments by developers to put in PFR measures must be supported by robust enforcement;
D) Legislate for the mandatory installation of sustainable drainage measures (SuDS) in all new building developments;
E) Increase the public's awareness of flood risk and flood prevention; and
F) Incorporate flood resilience into an improved planning system and building regulation reform by creating a nationwide standard for commercial and domestic properties.

Question 2
To what extent do you think that Flood Re offering discounted premiums for householders who have installed PFR will help to incentivise uptake of PFR in high risk households?

15. AXA believes that discounted premiums would have a small effect on high-risk households. Any premium discount passed on from Flood Re to insurers would only relate to the flood risk element, and it may be that, in practice, a consumer only receives a small discount off their total premium. In AXA's view, the discount offered may not be sufficiently large enough to prove a strong incentive to install PFR measures, particularly for properties in lower council tax bands. The costs for holistic solutions, which would have the most significant impact on reducing flood risk are often prohibitive, so a modest reduction in premium is unlikely to be enough to be the significant driver for whether a household decides to put in place PFR.

16. Discounted premiums may be one component of incentivising PFR and would be beneficial for increasing awareness and understanding for PFR, but AXA does not believe they would offer a panacea for all challenges associated with PFR uptake. It may be more impactful for PFR to be offered as part of claims settlement in alignment with Government's plans to 'Build Back Better'. AXA provides reasons for this viewpoint elsewhere in the consultation document.

17. Furthermore, as outlined in response to question 1, AXA believes the impact of discounted premiums is reliant on continued progress towards reducing barriers that currently stifle PFR uptake such as measures that improves awareness and educate households about the benefits of investing in PFR.

Question 3
How far do you agree or disagree that Flood Re offering discounted premiums for householders who have installed PFR will incentivise insurers to offer discounted premiums?

18. AXA does not believe a decision from Flood Re to offer discounted premiums for householders will significantly incentivise insurers to offer discounted premiums as standard at the current time, all other things being equal. Although, AXA would look for ways to pass on any reduction in premium received from Flood Re, due to PFR installation, to customers.

19. The primary challenge for insurers is that there is currently very limited data available with regards to where PFR measures have been used and how effective these have been. This is either because PFR has not been recorded or there has not been a further flood event to measure PFR effectiveness. While it is anticipated that PFR will result in less damage and

shorter repair times, there is no current evidence insurers can rely on which would indicate that the cost of a subsequent claim will be significantly lower than if the measures were not put in place. Insurers currently do not unilaterally ask questions on resilience measures when taking on new risk, it would need market change and the support of government and Flood Re to build an appropriate database that could be integrated into insurers' systems.

20. AXA welcomes the intent from DEFRA in the consultation document to improve data on the effectiveness of PFR. AXA has consistently called for a single national flood database which can capture all evidence of protection, appropriateness including annual inspections, and where needed, testing. In AXA's view, tracking PFR measures in this way would provide sufficient evidence for homeowners, businesses and insurers and could support a system of incentives for those that decide to undertake PFR. AXA continues to be supportive and engaged in the Flood Performance Certification (FPC) process led by Flood Re. FPCs would provide properties with a rating that takes into account a property's flood risk (i.e. likely time spent displaced from the property), the implications should a flood occur and any PFR measures installed. System rating and "risk reflective scoring" was a component of a previous AXA, BRE and LexisNexis Innovate UK grant project which we strongly believe should be progressed in light of government's intent to remove PFR barriers. FPCs would make recommendations for uptake of the most effective PFR measures suitable for that property. Information held on FPCs would be similar to that in Energy Performance Certificates and would give homeowners the ability to understand what action needs to be taken to ensure their home is more flood resilient. It is very likely FPCs would need legislative change to mandate them, which AXA believes government should strongly consider as part of their approach to flooding.

21. Furthermore, whether insurers provide discounted premiums will also depend on various factors including 1) the location of the property 2) the standard of PFR incorporated and 3) whether the risk is ceded to Flood Re, particularly where no flood damage has occurred previously. In addition, insurers would need to consider if the discount varies between Buildings and Contents. Again, this is a challenging task for insurers due to the lack of evidence to assess risk and likely claims costs. Further information and consultation are required on how PFR discounts will be applied, what level of discounts would be most effective, and which households will be eligible, as well as consultation with the insurance industry to develop and finalise an approach.

Question 4
Do you foresee any unintended consequences of offering discounted premiums to householders with policies ceded to Flood Re who have taken steps to install Property Flood Resilience?

22. One unintended consequence could be that access to discounted premiums is not equally available for two properties with appropriate PFR measures installed in the same area (with the same flood risk). One household may not have purchased or may be ineligible for ceded cover and so is shut off from any premium discount. While it would seem appropriate for discounts to only be applied to Flood Re ceded policies, this approach would need to be consistent with insurers' commitments to treat all customers fairly. In addition, and as outlined elsewhere in this consultation, there is currently no database which specifies properties with PFR measures incorporated.

23. Furthermore, home insurance policies are usually sold on an annual basis. Over the length of a policy, insurers would need to be confident that PFR measures were still in place and have been maintained appropriately. AXA would welcome further guidance from government on

how it is expected that this information will be provided to insurers. Similarly, it will need to be evidenced to insurers that the PFR measures put in place are of the correct standard and are appropriate for the risk and characteristics of the property. If PFR measures were to become a simple tick-box exercise for customers, there could be an unintended incentive for households to install the cheapest option which may be insufficient for the level of protection they need to lower flood risk.

Question 5
What is the best way that Flood Re could reduce insurance premiums for those with appropriate PFR measures installed?

24. Ideally, AXA believes the best solution would be to apply reductions based on a rating of the effectiveness of the PFR installed, with higher percentage reductions applied to those who have installed more highly rated PFR. The effectiveness of PFR, and insurer's confidence in that effectiveness, is in AXA's view, the critical component for a sustainable system of primary deductions which is reflective of risk. However, AXA recognises this would require an evidenced rating system that accounts for relevant factors that impact the effectiveness of PFR measures installed to make assessments. Considering government is intending to build data and evidence on the effectiveness of PFR measures, it would seem a logical next step for government to develop sufficient standards and ratings for PFR measures.

Question 6
How far do you agree or disagree that Flood Re should offer Build Back Better to policies ceded to the Scheme?

25. AXA supports the principle of increasing resilience through Flood Re offering Build Back Better policies ceded to the Scheme. Funding will assist in the inclusion of resilient and/or resistant repairs, above and beyond like-for-like reinstatement of actual flood damage. AXA agrees that there would be substantial benefits to householders and wider society by providing a means for which properties exposed to flooding can adapt to the increasing risk. Adding resilience / resistance following a flood loss is the most cost-effective time to deploy changes. AXA also believes Flood Re offering Build Back Better would encourage the wider insurance market to consider offering betterment repairs following flooding claims. It will be down to individual insurers to devise innovative products whereby limited 'Build Back Better' repairs are offered as part of flood cover or loyalty schemes whereby customers who have received PFR receive further incentives to stay with the insurer who supported the customer to incorporate those PFR measures in the first place.

26. More work is needed to determine how this approach to flood claims will work in practice and how it is best funded. This is particularly important given the potential impact on claims costs. Given the variability on flood events, it may be some years before systems are real-world tested, at which point a property may have changed ownership and systems may have been removed, or poorly maintained. While AXA supports the concept of 'Build Back Better' measures there must be a mechanism in place to assess that PFR measures are appropriately installed for the particular property. As discussed elsewhere in the consultation response, the success of the measures proposed are reliant on data collection around PFR effectiveness and property flood performance ratings. Furthermore, a balance must be struck to ensure that non-flood risk homeowners do not bear a significant cost through inflated premiums in order to subsidise the increase cost of claims on policies ceded to Flood Re.

27. In addition, the Flood Re proposal of £10,000 in many properties will likely be insufficient to provide adequate holistic protection to future flood events and to make a real difference to the availability of affordable insurance. Therefore, there may need to be a commitment from another source to provide additional investment, particularly in higher-risk properties. Government could support homeowners in at-risk properties here through interest-free loans or various grant mechanisms. Equally, the £10,000 proposal could vary based on risk and the types of PFR required to ensure adequate protection.

28. Furthermore, the consultation document rightly highlights a number of considerations that will need to be addressed when taking this proposal forward. For example, insurers have a responsibility to demonstrate that claims are managed in a consistent way across policies whether ceded to Flood Re or not and ensure that we treat all customers fairly. Additionally, AXA supports a customer's right to change insurers at any point, as part of a competitive insurance market. This approach presents a potential difficulty from an insurer's perspective as there is no guarantee a customer will remain with an insurer after supporting them to lower their flood risk by putting in place PFR measures. These are areas which will require further consultation.

Question 7
What are the potential impacts of Flood Re offering Build Back Better?

29. AXA believes this proposal would be somewhat effective at encouraging householders to consider fitting PFR. It is AXA's view that it is necessary to consider both flood resistance and flood resilience and how they work together.

30. The responsibility of insurers is to ensure all customers are treated fairly, and so it may be necessary for insurers to provide Build Back Better repairs to non-ceded as well as ceded policyholders. There are obvious implications to this around updating policy wordings and claims processes. Insurers would need to have clarity on whether the Build Back Better limit is available on each claim and whether there is a time limit per draw down from the Build Back Better pot, i.e. if a second flood claim was to impact the same property in a matter of months, would a further £10,000 (based on Flood Re's proposal) be available for additional betterment repairs.

31. Furthermore, following a claim, AXA's concern would be that Build Back Better repairs slow down the reinstatement process resulting in impacted households having to spend longer in alternative accommodation. In recent flood events, the assistance provided by the Government's Property Flood Resilience Recovery Support Scheme for the victims of floods has been limited in its success due to the reinstatement delays often experienced when applying for the scheme. AXA welcomes Government's commitment to review the impact, administration and timescales of the most recent Support Scheme. It is important that Build Back Better funding and any other government grants are made available as early as possible to the victims of flooding to ensure they can be quickly incorporated.

32. Related to the claims process, insurers and adjusters will need to be aware of cover and the intention to install Build Back Better repairs including carrying out sufficient surveys. PFR measures will also need to consider the end-user, particularly when that individual is a vulnerable person. Some flood resistance often relies heavily on timely and physically able interventions by customers. To ensure flood resistance can be accessible for all property owners, particularly in light of the UK's ageing population, all relevant stakeholders will need to consider the types of protection offered and a customer's ability to install it correctly.

There will also be a need to consider continued maintenance of PFR measures where needed and ongoing costs related to certification.

33. For Flood Re, the proposal's impact is reliant on validating that Build Back Better repairs have been incorporated, the costs evidenced, and the impact continuously monitored. There will be a need for a longer-term assessment of the protection, including a consideration of the lifespan of these products or their parts.

Question 8
If betterment were offered in line with the proposal above, how effective do you think it would be at encouraging householders to consider fitting PFR?

34. AXA believes the effectiveness of betterment in encouraging householders to consider fitting PFR to be limited. There is current customer inertia towards an uptake of PFR measures for a variety of reasons including aesthetics, lack of awareness, speed of reinstatement if installed following an event and fear it will blacklist their property. Further work will be needed, including providing customer education on PFR effectiveness, beyond Build Back Better repairs in order to change societal behaviour towards flood resistance and resilience.

35. As outlined in the response to previous questions, AXA is also concerned that a £10,000 cap set by Flood Re may not be sufficient to provide adequate protection, particularly for high-risk properties. Furthermore, there would need to be confidence in a sufficient supply of PFR materials following an 'event' and the speed at which they could be installed.

36. AXA has consistently called for the need to review and reform building standards in order to build flood resilience into a nationwide standard. While AXA appreciates and welcomes DEFRA's objective of providing tangible and immediate improvements to communities facing flood risks, taking the time to develop and implement methods for assessing and quantifying flood resilience and then incorporating these measures into a nationwide standard would be a long-term step towards consistent flood resilience across the UK.

Question 9
How far do you agree or disagree that insurers should be able to choose whether or not to offer Build Back Better as funded by Flood Re?

37. While there will need to be flexibility for commercial insurers as part of a competitive insurance market, AXA believes this approach would need consistency across the market to have the desired impact and prevent unintended negative market effects. Government should be engaging continuously with insurance throughout this scheme of work to develop an approach that is workable for the entire insurance market.

Question 10
Additionally, how far do you agree or disagree this proposal will encourage the insurance market to make Build Back Better a standard offer in policies ahead of 2039? Please give reasons to support your answer.

38. Provided that Build Back Better repairs can overcome the challenges outlined throughout this consultation response, it should support improving the flood resilience of the UK's existing housing stock and highlight to insurers the proportional benefits of betterment flood repairs. Furthermore, AXA believes that the proposal outlined will support much-needed data

collection on where PFR has been deployed and its effectiveness to enable reflective pricing to be in place by 2039.

Question 11
How far do you agree or disagree that Levy I should be set on a three-year basis, rather than five years?

39. AXA agrees that Levy I should be set on a three years basis, rather than five years. This would allow for risk to be assessed more frequently and will ensure insurers are paying the Levy based on more recent performance. If Levy I amount is to change, AXA believes insurers should be given as much notice as is possible.

Question 12
Are there any unintended consequences of changing the Levy I cycle from five years to three years?

40. AXA would point to a smaller data pool to interrogate and more frequent changes. As outlined above, AXA believes insurers should be given as much notice as is possible before changes to Levy I.

Question 13
How far do you agree or disagree that three years is an appropriate setting period for the liability limit?

41. AXA agrees that three years is an appropriate setting period for the liability limit which will align with setting the Levy I amount and the purchase of reinsurance.

Question 14
What are the possible impacts of changing the period that the liability limit is set from five years to three years?

42. AXA does not foresee any negative impacts from changing the liability limit period to three years.

Question 15
How far do you agree or disagree that Flood Re should be able to spend their funds, over and above what they need to operate as a commercial reinsurer, on a wider range of activities that contribute towards increased uptake of PFR?

43. The primary funding responsibility for flood risk management schemes, including increasing the uptake of PFR, is the responsibility of central Government. However, Flood Re does have a role in raising education and awareness in the uptake of PFR to improve flood resilience and resistance across the UK. This would include testing and trialling the effectiveness of PFR. AXA welcomes activity that encourages a more resilient built environment and there is a case for whether Flood Re could provide further support for promoting the use of PFR. However, the use of Flood Re funds, over and above what they need to operate as a commercial reinsurer, would need agreement of insurers who contribute to Flood Re via the levy and limits would need to be applied to ensure Flood Re can fulfil its primary role before other activities. Insurers have mandated responsibilities to ensure they have the requisite capital to support customers by paying valid claims.

Question 16

What could be the impacts or consequences of Flood Re spending any surplus it accrues over a levy setting period (above and beyond what it requires to operate and meet its regulatory requirements) on further activities?

44. Spending surplus reserves may seem plausible considering the relatively benign years following the launch of Flood Re. However, the more Scheme's reserves are reduced to fund other activities, the greater the chance of needing to use Levy II, particularly if there is an increase in the frequency and severity of floods in the next three years. As outlined above, Flood Re is not the primary actor responsible for flood risk management schemes, it is the responsibility of central Government. By initiating this approach, Government could be setting a precedent where schemes such as Flood Re can be used for funding responsibilities that are against their original intentions.

Question 17

What activities would Flood Re be best placed to put money towards to accelerate the transition towards a risk reflective insurance market in the UK in 2039?

45. The proposals outlined in this consultation, to offer premium discounts for Flood Re ceded policies that install PFR measures and funds to support flooded customers are significant measures to support this objective. However, as outlined elsewhere in this response, Flood Re does have a role in raising awareness and education for PFR measures, particularly as climate change will likely mean that as we move towards 2039, more properties will be considered at high risk of flooding. Moreover, AXA would urge Flood Re to consider the need to ensure ceded premiums reflect the flood claims history rather than being charged by Council Tax band. A higher charge for frequent claims would ensure the charge reflects risk and would likely incentivise PFR where a discount is applied to the ceded premium.

Question 18

How far do you agree or disagree that Flood Re should further reduce the cost of their cheapest premiums?

46. While AXA agrees that Government should identify measures to improve the affordability of flood-related insurance cover for those on lower incomes, as sighted in the recent Blanc Review, Flood Re reducing the cost of their cheapest premiums may not be the most suitable approach. Households within Council Tax Bands A-C vary considerably and a large number of these types of properties are within flood risk areas. Current applied rates can be considered relatively low in comparison to the flood risk of these properties and so, a careful assessment of any unintended consequences of this measure would be needed to ensure insurers can continue to price flood risks as accurately and fairly as possible. This is particularly important when considering the additional claims costs that may be needed in order to fund the proposed Build Back Better repairs. AXA believes there are other ways for Government to directly address the affordability of flood risk cover for low-income householders. For example, to support Flood Re to ensure access to affordable flood insurance cover for households in the UK, HM Treasury could consider whether Insurance Premium Tax should be applied on households from lower Council Tax bands.

Question 19
What could the impact or consequence of Flood Re changing the cost of their cheapest premiums be?

47. Further research is required to consider whether Flood Re changing the cost of their cheapest premium would increase the take up of insurance where householders currently decide against insuring their property. Moreover, the potential unintended consequences as outlined elsewhere in this consultation would also need to be assessed.

If you need to get in touch regarding the information in this submission, please get in touch with AXA's Public Affairs Team at ukpublicaffairs@axa-uk.co.uk.