



Flood Re: the impact of the scheme on surveyors and valuers

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The catastrophic impact that flooding can have on property owners has been seen all over the news for the past decade. In particular, 2012 saw some of the wettest weather for a century and left thousands of households struggling to find insurance cover for their properties. In response to these issues, the Government and the Association of British Insurers (ABI) have been working together to come up with a solution, which has been christened the Flood Reinsurance Scheme, or Flood Re. In this article, we look at how the scheme works, what it will cover and the risks for valuers and surveyors arising from the application of the scheme and the issue of flooding.

What is Flood Re and how will it work?

Flood Re has been established to allow domestic properties at the highest risk of flooding to benefit from affordable insurance cover. The flood element of household insurance policies will be placed with Flood Re and priced according to Council Tax bands – from £210 for Band A homes to £1,200 for Band H homes. Claims by policyholders will be paid by insurers in the usual way. Flood Re will then reimburse those insurers for the cost of the flood-related elements of claims. In essence, the scheme will provide reinsurance to insurers that, it is hoped, will in turn promote accessible and affordable flood insurance for residential properties.

The scheme is expected to have a lifespan of 25 years. During this period, it is hoped that improved flood defences will lead to a gradual transition towards more risk-reflective prices for consumers.

Where is the money coming from?

A capped provision of around £2.5bn has been made available for Flood Re's aggregate liability to the insurance industry. This will be funded primarily by an annual levy on every domestic property insurance provider, totalling £180m, which equates to £10.81 per household. The levy will be fixed at a level in line with the cross subsidy that currently exists in the market, where policyholders already subsidise those who are at greater risk.

To hedge against the risk of the money running out when the scheme has yet to accumulate adequate capital, Flood Re will also have the power to request an additional payment from the insurance industry to satisfy any claims in the early years of the scheme. As such, the insurance industry will potentially be subjected to considerable cash-calls in the initial period of the scheme.

Any comments or queries?

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In the event that claims exceed the cap placed on Flood Re's liability, payments will likely be met by Flood Re's own reinsurer.

Who will be covered by the scheme?

Not all property owners will be able to take advantage of the scheme. To discourage development in flood prone areas, houses built after 1 January 2009 will be excluded from the scheme. Flood Re will also not extend to business premises, nor to most flats. This is likely to catch out some private landlords, whose residential buy-to-let properties will, subject to some exceptions, be classed as business premises. Tenants of these properties will, however, be able to obtain contents insurance through Flood Re.

Although excluded from the scheme under the initial proposals, houses in Council Tax Band H (Band I in Wales) **will** now be included within Flood Re.

Legislation

On 1 January 2015, the relevant clauses in the Water Act 2014, which provide for the establishment of Flood Re, came into force.

The Flood Reinsurance (Scheme Funding, Administration and Amendment) Regulations 2015 contain the details of how the scheme will operate. While these regulations have been agreed by Parliament in principle, the passing of them was put on hold during the general election. Similarly, plans to obtain full regulatory approval from the Prudential Regulatory Authority and the Financial Conduct Authority have been on hold, awaiting the recent election.

In the meantime, Flood Re has now received approval from the European Commission, which confirmed that the scheme will not breach EC competition law.

Advice for valuers and surveyors

The RICS has recently published an information paper, effective as of August 2015, which addresses flood-related issues of concern for surveyors and valuers. The guidance will have most relevance for those carrying out mortgage valuation, condition, homebuyer and building survey reports for residential properties.

The paper details the six different types of flooding (tidal; fluvial; ground water; pluvial; flooding from sewers; and flooding from man-made infrastructure) and references existing Red Book guidance on how to deal with properties at risk. Key considerations include the location of a property; the area's historic flooding profile; any design possibilities to mitigate any risk; and whether the risk has a material effect on the value of the property. When considering the locational aspects of a property, the Red Book's property observation checklist (at UKGN4) remains a good reference point.

The paper also highlights key features which will help a valuer assess the market value of those properties at risk of flooding. These key features include the cost and availability of insurance and flood mitigation measures. It is hoped, therefore, that more accessible, affordable insurance as envisaged by Flood Re will minimise any impact of flood risk on the market value of a property. However, as the role of the surveyor is to assess the impact of flooding risk on the value of a property on the basis of the standards in place at the time, valuers in particular will need to stay abreast of developments.

Valuers and surveyors should also remain extra vigilant where properties are not covered by Flood Re, as this could have a severe detrimental effect on the property's value. A failure to spot a risk of flooding, or to

advise that a property may not be covered by Flood Re, could result in a significant overvaluation, which could give rise to a costly claim by a lender or purchaser.

Conclusion

Only time will tell as to whether the scheme will work and what problems may be encountered. Close attention will need to

be paid to this area where guidance, policy and legislation are continuously evolving. Nevertheless, the Government and ABI are to be applauded for establishing the Flood Re scheme, so as to provide peace of mind for hundreds of thousands of homeowners whose homes are at risk of flooding and who currently are unable to access affordable (or, in many cases, any) insurance.

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