

RESEARCH BRIEF

How can the introduction of Flood Re mitigate flood hazard? A stakeholders' perspective of the role of the reinsurance vehicle in flood mitigation

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In September 2015, at the beginning of my master's degree at The University of Nottingham, one of my professors advised my class to read the speech presented by Mark Carney at Lloyd's. His words were very eloquent about the need of an increased role of insurances to address environmental issues. Moreover, he stressed upon a meaningful connection between the environment and the financial stability. This was the starting point of my reflections about the link between the environment and insurance industry.

Anyhow, the more I thought about it and the more I realized there was a gap in the relationship between the two, and this gap was represented in the lack of interest shown by people towards seeking insurances for environmental issues. In fact, I believe that people and their opinions need to be taken into consideration to make sure that the effort made, by either governments or influencing industries, such as by the insurance sector, can give fruitful results and effective solutions. The social aspects always need to be thoroughly analysed and evaluated to understand the effectiveness and potential outcomes of the projects.

All these considerations led me to critically review the new UK reinsurance product 'Flood Re' from a social point of view. Given its purposes and the partial novelty of its structure, I decided it would be interesting to analyse it together with the intentions of the insurance industry, the government and the current perception and opinions of the people that will be affected by it. The idea of including people as key stakeholders for my study emerged during a meeting with one of the Southwell Flood Forum members, Jacky Huson. During the meeting, she explained all the problems that the town had to encounter due to floods and how this led to the development a flood forum which has been since involved in the design of forward-looking plans and awareness in Southwell.

Having studied the case of Southwell's flood management methods and new debates around Flood Re, it seemed probable to undertake a study in this regard. Thanks to the participation of members belonging to the Southwell Flood Forum, my project could start. I started my dissertation project with the intention to identify the government and insurance industry justifications for the introduction of Flood Re and the perception of the people towards it. I wanted to see what were the driving forces behind this project and if they coincided with what people needed and thought.

It must be reminded that the floods are a serious problem in the UK, especially if considering that the increase number in population and houses built worsen the situation. In fact, if more and more houses will be at risk of floods, the possibility to obtain floods insurance cover will be more difficult. The Association of British Insurers (the ABI), before the announcement of Flood Re, had estimated that, starting from 2012, 200,000 properties would have been without flood cover if the collaboration between the Insurance Industry and the Government was meant to end. This stressed upon the necessity of both having insurances to help people dealing with the consequences of floods and seeking collaborations between the two institutions.

Flood Re, represent this last point, a new solution to face this problem. Flood Re is, widely speaking, a reinsurance vehicle that will directly help insurers to have sufficient funds to compensate the policyholders and to continue to provide cover to houses situated in high-flood risk areas. From my point of view, as I affirmed earlier, it was important to understand Flood Re keeping in mind the purposes of the two institutions that promoted it and of the policyholders that will be affected by it.

In my dissertation, I analysed the relevant public documentations belonging to the Government and the insurance sector and I interviewed some members of Southwell community. Especially from the analysis of the interviews, four main themes were highlighted and were related to: insurance

performance, mitigation measures, sources of vulnerability and opinions on Flood Re. These themes were very helpful in understanding the position of the people towards Flood Re.

The following sections reports the key findings & recommendations of my research.

Government's Position, Purposes & Driving Intentions

The majority of the literature showed to be critical towards the role that the Government has played to face flood events. The researchers inquired about the activities of the institution that are not fruitful enough in the implementation of flood defences. The analysis of Flood Re does not show, of course, any defined action towards the building of flood defences. Yet, it shows a push of the Government towards other sources of mitigation solutions such as the use of insurance to help policyholders, living in high flood risk areas, to keep affording flood cover.

From the findings, the reasons behind the creation of Flood Re are both political and social, while the financial part seems less important. It is for political reasons, rather than a mean to reduce floods in high risk areas, that the Government wants and needs to act to face the flood problem. It is clear that the Government understands the current situation, the severity of floods and that there is a need to transit policyholders and insurance companies to a more risk-related pricing in the insurance market. At the same time, it is aware of the need not only to act with insurance vehicle as mitigation measure but also with flood defences, a more suitable land-use and further mitigation solution.

Insurance Industry's Position, Purposes & Driving Intentions

The literature shows that there are opposed views of the role of insurance, whilst on one hand, it is considered to be a better administrator than the Government and an institution that can achieve very important results in mitigation for flood events, and the possible climate change's consequences. On the other hand, it has been blamed for focusing primarily on short term solutions and to discourage people living in flood prone areas, to invest in flood proof measures because of the financial help they can give in case of losses.

Yet, in practice the situation seems less defined. In fact, insurance performance seems to vary according to the company people are insured with, as it was clear from the spectrum of the Southwell inhabitants' experiences. Moreover, it seems that since the Statement of Principles and following with Flood Re, insurance industry is interested in long term solutions and for this reason it created this 25-years transition plan to create a more risk-reflective pricing market. In conclusion, the Industry is interested in finding a long term and permanent solution that can both be viable for the Industry itself and for policyholders, whilst tackling the problem of floods by incentivizing other mitigation solutions with the collaboration of the Government.

UK Public Perception & Flood Re: A Case of Southwell

The research showed the different opinions of Southwell inhabitants; however, the identification of the themes made possible to give order to the different perceptions to create a more homogeneous scenario. The locals showed different experiences for what concerns the insurance performance, going from a stainless performance to the denial to give flood loss compensation or cover. The sources of vulnerability went from old age to bad maintenance and wrong land-use. All the inhabitants installed mitigation devices after the flood events and had a general, but sometimes vague, idea of what Flood Re is about.

People seemed to be inclined to invest in property flood proof measures because floods are not only a matter of redecoration of houses and but it is also a source of great distress for those affected by them. People who experienced floods hope not to be flooded again and are willing to protect their properties, even though with different degrees of commitment. Their information about Flood Re were quite vague sometimes, showing that the information is either not effective enough or it is not properly conveyed yet. Apart from that, from what they understood, Flood Re seems to all of them to be a good vehicle that could give some relief to the people at risk of flood. Nevertheless, they gave more attention and importance to the removal of the sources of vulnerability like mismanaged land-use or maintenance, that could avoid completely the risk of

flooding, rather than considering the use of insurance or reinsurance vehicles as possible mitigation solutions to floods.

Recommendations

The benefits of these recommendations are specifically related to the social aspect of Flood Re and will now be explained. First of all, Flood Re is a novel solution and shows the intentions of the Government and the Insurance Industry to tackle the problem of floods not only by the use of flood defences but also by the use of the insurance vehicle. However, its intentions and finalities have not been thoroughly explained to the public. What all the people interviewed showed was the lack of understanding that it is only a temporary vehicle, making sure that people will have affordable and available insurance only for a period of time. Moreover, the prices of the insurance will not always remain affordable because Flood Re's intention is to transit policyholder to a more risk-reflective insurance market that would then be affordable only if all private and public flood defences will be put in place.

For future projects, the communication must be clearer and concise; also the institutions' intentions should be stated more clearly. Moreover, it would have been desirable to have, connected to Flood Re, a draft of how the Government and the Industry can, apart from this financial agreement, come together and work to achieve more lasting solutions for floods. Finally, the Insurance Industry in future actions should be bolder and direct facing natural hazard because it has all the potentialities of making the difference in the future of flood mitigation. In fact, if this vehicle proves to be successful it is recommended to try to create a broader reinsurance scheme that will facilitate not only floods but also other natural hazards.”

When asked about the value of this research I can say that there are, in my opinion, three main reason in favour of it. First of all, it explains and introduces the context in which Floor Re was developed, considering also the Government and Insurance Industry perspective. Secondly, it allows some of the people that will be impacted by it to express their opinions and views. Clarifying the effects people expect from Flood Re. Finally, it allows some considerations on the relationship between natural events, floods in particular, and the insurance sector, how they interact and where the related literature places Flood Re as a possible source of flood management and mitigation solution.

I would now like to deeply thank all the people that decided to participate to my research because without you this wouldn't have been possible and my colleague Mohsin Gul that assisted me with some interviews. A very special thank goes to Jacky Huson for believing in my project and for her dedication in helping me.

I finally would like to thank the Southwell Flood Forum that helped me throughout all the process of retrieving the interviews for my project and that is a living proof of what means to be an organization willing to create benefit for the whole community.