TRANSITION EFFECTS OF FLOOD RE IN THE UNITED KINGDOM

Region: Europe
Country: United Kingdom
Tags: Climate resilience | Insurance | Sea-level rise
Themes: Climate change | Finance

Industries, innovation and infrastructures | Sustainable cities and communities | Climate action | Life below water

Policy in practice

Economic instruments, such as risk-based flood insurance and property risk disclosure, can be well-suited to reducing coastal risks. They can result in lower costs to the public, flexible and efficient use of space and help ensure individuals are aware of coastal risks. However, few countries have revised financial protection mechanisms as part of their adaptation planning. One exception is the United Kingdom, where climate change has been one of the factors leading to a change in insurance provision.

Flood Re was created in 2016 in order to support the private insurance industry and encourage the affordability of flood insurance for policyholders. The scheme works by providing insurance companies with the possibility of reinsuring policies at a highly discounted price. A levy for the subsidised reinsurance is collected from insurers, who can pass on the levy to policyholders. As insurers can pass on their risk for a reduced price, they can charge lower premiums to high-risk policyholders. All homes are eligible for Flood Re, regardless of their flood risk; however, the price of accessing Flood Re reinsurance was set with the aim of making sure that the coverage is only sought for high-risk properties.

In the long term, the main aim of Flood Re is to encourage a transition to a free market that uses risk-reflective pricing. However, to achieve this, a combination of amending premium thresholds and reducing flood risk will be necessary to keep flood insurance affordable. Yet, there are already concerns that the design of the new pool does not sufficiently consider rising flood risks due to climate change nor incentivise flood risk reduction or the improvement of the flood resilience of properties. Indeed, the UK Committee on Climate Change finds that in its current design, Flood Re is likely to be counter-productive to the long-term management of flood risk as it does not provide enough incentives for high-risk households to put measures in place to avoid or reduce flood damage.

The UK government has accepted that risk-reduction efforts are essential for the future affordability of flood insurance, and has pledged to collaborate more closely with other stakeholders. Yet despite the release of a second adaptation plan in 2018, criticisms of the management of Flood Re continue, in

particular that not enough action has been taken to manage the transition period ahead of the programme's withdrawal.

Source report

OECD (2019), Responding to Rising Seas OECD Country Approaches to Tackling Coastal Risks , OECD Publishing, Paris, Box 3.5.

Key policy message

Financial protection mechanisms can be integrated into adaptation planning to reduce coastal risks.

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