Opening the flood gates: getting ready for Flood Re

Results from our first Flood Re readiness survey
In 2013, the UK Government and the insurance industry jointly committed to launching Flood Re, a not-for-profit flood fund and reinsurance scheme designed to ensure flood insurance remains widely affordable and available to consumers. Since it was announced significant progress has been made.

The industry is eager to support the scheme

The industry is overwhelmingly supportive of the Flood Re scheme, and plans to cede risks to Flood Re when it goes live. Over three quarters of respondents claimed that they would expand their risk appetite to attract a larger share of households at risk of flooding.

This will be good news for customers as it suggests far greater competition for flood-prone household business, which should result in downward pressure on premiums. It would also undoubtedly be seen as a success for the ABI and Government, given their objective to provide a sustainable market for flood risks without undue burden on the tax payer.
Flood Re readiness survey results

In readiness for the launch of Flood Re we undertook a survey to assess the progress household insurers, distribution partners and brokers are making with their preparations. The survey participants included Managers, Chief Underwriting Officers and Heads of Pricing from the UK’s major household insurers which represents approximately one third of the household market (by premium volume).

Key findings

► 70% of respondents feel that although there has been progress made in developing Flood Re’s implementation there are still key areas missing such as detailed technical requirements on data sharing
► Insurers will support Flood Re when it goes live by ceding risks to it, and 83% plan to compete for customers by expanding their risk appetite
► 40% of respondents remain in the early stages of planning for Flood Re
► Firms are preparing their staff to answer questions about Flood Re from customers, however limited change to the customer experience is anticipated and only 25% plan to proactively communicate with their customers
► All insurers felt that greater engagement with software houses is required to ensure the best industry-wide solution

Percentage of insurers who plan to compete for customers by expanding their risk appetite

- Expanding flood risk appetite: 83%
- No impact on flood risk appetite: 17%

How insurers are preparing to engage with customers about Flood Re

- Proactive communication, including mailings and renewal inserts: 63%
- Just let ABI and Flood Re do it: 25%
- Prepare our customer-facing staff for potential customer queries: 13%

Customer switching could be on the rise

Around 60% of respondents expect there to be limited change to the customer’s experience of buying household insurance, to the extent that they aren’t creating additional questions for their sales process. However, all claimed to be preparing staff to answer questions reactively from customers.

In addition, communicating proactively with customers is not currently high on most respondent’s agenda – only a quarter of insurers intend to contact their customers with information about the scheme. This seems rather at odds with the acclaimed intention firms have to grow their flood risk book, as retaining current customers is a big part of that and requires significant marketing effort. If effort is focused upon bringing in new customers, rather than nurturing the existing ones, we could see switching rates start to increase as people begin to shop around. Given that many flood risk customers have been unable to change insurer for years, as competition in the market rises, and prices drop, customers are likely to flock to the providers who are ready to access Flood Re and offer standard coverage at the best price.
Significant internal change is required

There is significant variation across the board in respondent readiness. Whilst for the majority, work has been kicked off, over 40% of respondents are still in the early stages of planning, and some even appear to have waited for the more detailed rules and processes to be published before starting to plan the changes to their business models and processes. Given that it was only released in April 2015, many firms are yet to address some of the more complex issues that implementation brings, which means they are already on the back foot. At the worst end of the scale, some of the household insurance schemes and intermediaries may not be able to participate at all due to the lack of sophistication in their systems or the costs associated with the extent of internal change required.

Large scale technology change is expected

Changes to interfaces with external parties such as intermediaries and software houses, and pricing rules and processes, were identified as the biggest technological challenges associated with preparing for Flood Re. Other areas of technology change requiring significant effort include how the additional Flood Re data gathered would be held, and changes to internal interfaces between policy and finance systems.

Distributor respondents claimed that in addition to these complexities, they are dependent on their insurer partners and software houses making the relevant changes to their internal systems for them to progress.

Respondents ranked the level of effort required to implement changes to systems and technology for Flood Re

![Level of effort chart]

- Allow for additional data
- Interfaces internally
- Interfaces with external parties
- Pricing rules and processes
- Reinsurance systems

Level of effort:
- 4 High
- 3
- 2
- 1 Low
Progress has been made, but there’s still work to be done

Respondents largely acknowledged the efforts the ABI and Flood Re have made to engage insurers during the design phase. However, there is a level of scepticism expressed at the timescales and general industry readiness. Whilst over 70% of respondents felt that although progress has been made, there are still key areas which need to be addressed. This is largely thought to be a result of the necessary steps Flood Re has had to follow taking longer than planned, which has led to some players slowing down the progress of their own preparations.

There are also areas were respondents felt the industry could improve; in particular that Flood Re and the ABI could be clearer about the detail of how data sharing and levy calculation will work. Respondents also felt that there should be greater engagement between insurers and software houses to ensure an industry-wide solution, rather than each provider creating a bespoke solution.

Conclusions

The Flood Re scheme brings several hundred thousand customers, that are currently in a niche market where insurers have the upper hand, into the mainstream where customers are in the driving seat. Overall the news is positive for customers in flood risk areas, as competition will likely drive prices down. With such a large market, there is real opportunity for the industry to grow their flood risk book. However, it is clear that not everybody is at the same stage of preparedness. Those that are not ready for day one of the scheme will be at a distinct disadvantage in the competition for these customers. Getting ready is complex and involves a significant amount of technology and process change for both insurers and distributors, but it is fundamental if firms want to compete.

Are insurers ready for Flood Re?

- 14% Industry moving quicker than the Government
- 14% Way behind – I expect further delays
- 71% Progressing – but key areas missing

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- The industry recognises the positive impact of Flood Re and is supportive of the initiative; however reservations remain over the pace with which change has been implemented
- Customers are likely to see prices drop, as competition to write flood risk amongst provider’s increases, leading to a period of widespread switching
- Flood Re is changing the way flood risk is traded and will present a major opportunity or significant threat to insurers
- Of the estimated 3.8m households at risk of flooding, there are 500,000 households who could benefit from Flood Re, so being able to cede risks from the day of launch may be pivotal in defining who the biggest winners are

Source:
1 ‘Managing the future financial risk of flooding’, Defra Impact assessment, June 2014
2 ‘Flood Re – Layman’s guide’, Flood Re, April 2015
Help your teams to understand Flood Re using our eLearning module

To help embed consistent and thorough Flood Re knowledge, EY has developed an eLearning module that is available off the shelf. Our module communicates the critical messages about Flood Re, including what it means for staff and customers in friendly, everyday terms. It sets the scene and describes precisely how the scheme will work – for example what it covers, and what it does not – and gives practical suggestions on the sorts of questions customers are likely to ask. Staff taking the module will find all the information, reassurance and tips they need to be ready to handle the new rules and practices. We can even tailor the module to include your specific business processes and changes. Please contact Tony Sault, tsault@uk.ey.com for further information.
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EYG no. C00272
11243.indd (UK) 08/15. Artwork by Creative Services Group Design.

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