European Commission - Press release

State aid: Commission approves UK flood reinsurance scheme

Brussels, 29 January 2015

The European Commission has approved under EU state aid rules a UK reinsurance scheme aimed at ensuring the availability of domestic insurance at affordable prices for flood-related damage. The scheme ("Flood Re") will set up a pool to provide reinsurance for the flood risk element from those households deemed at high risk of flooding. It will be funded partially by an industry-wide levy, which may confer an economic advantage to the pool over its competitors and involve state aid. However, the Commission has concluded that the scheme is compatible with EU state aid rules, because such insurance cover might not otherwise be sufficiently available on the private market, and the scheme remedies the market failure without unduly distorting competition.

Commissioner Margrethe Vestager, in charge of competition policy, said: "*Today's decision ensures that insurance coverage against high flood risks is available at affordable prices to those UK citizens who need it most, because they live in regions vulnerable to flooding*. *It is a great illustration of how the Commission and Member States can work together to design effective aid measures that contribute to important public policy goals."*

In November 2014, the UK notified to the Commission plans to set up Flood Re, a non-profit flood risk reinsurance pool, which will be run and financed by insurers. Flood Re aims at preventing a market failure for domestic property insurance in certain areas by allowing insurers to transfer the highest flood risk elements to the pool at a set premium. The terms of the scheme allow insurers to compound risk – they will pay claims to policy holders as usual on flood risks transferred to the pool and then recover those costs from the scheme. At the same time, it ensures affordable prices for the policy holder, i.e. the end consumer, given that their premiums are capped for insurers participating in the scheme. Participation in the scheme is voluntary and insurers also retain the possibility to reinsure such risks in the general reinsurance market.

The pool will be funded entirely by the UK domestic property insurance industry itself through premiums passed on by the insurers as well as a levy charged to all insurance companies active in the market, depending on market share. Since Flood Re would be the only flood reinsurer benefitting from this levy, it could confer on it an economic advantage over its competitors and therefore constitute state aid within the meaning of EU rules.

The Commission assessed whether such aid could be found compatible with EU Treaty rules, which allow certain categories of aid that further objectives of common interest, provided that competition distortions are limited. It concluded that the scheme facilitates the provision of flood insurance cover at affordable prices in areas where no or insufficient cover would otherwise be available. It further found that the aid is appropriate and proportional for achieving this goal. Moreover, the scheme is open on the same terms to all companies providing domestic property insurance in the UK. This will ensure that the distortions of competition are minimised.

Finally, the scheme is a transitional measure, which will be phased out after an estimated period of 20 to 25 years, by which time market conditions should enable insurers to price flood insurance depending on risk but at affordable levels. In order to make the risk reflective pricing of such domestic flood insurance sustainable, during this period the UK authorities have committed to invest in infrastructure to improve flood risk management in the UK. For example, a specific program to improve flood defence is planned in 2015-2016. Furthermore, a standard flood risk report template will be provided to insurers with information on the effects of the measures implemented in terms of resistance and resilience to facilitate the reflection of flood risk management in insurance contracts.

The Commission therefore concluded that the scheme was in line with EU state aid rules.

Background

In July 2008, the UK government and the Association of British Insurers (the ABI) reached an agreement, which committed UK insurers to make flood insurance for high risk elements available to domestic households and SME properties until June 2013.

In view of pricing developments in the insurance sector raised concerns that rapid and significant increases in the pricing of flood risks could make domestic property insurance unaffordable and leave citizens in certain areas without compensation for flood-related damages. Therefore, on 27 June 2013, the ABI and the Government agreed a Memorandum of Understanding on how to develop the model of Flood Re. It is envisaged that the scheme will be set up by July 2015.

The non-confidential version of the decision will be made available under case number SA.38535 in the State Aid Register on the competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.

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