

Section A		
Institution: The University of Manchester		
Unit of Assessment: 30 (Philosophy)		
Title of case study: <i>Flood Re</i> : Flood Insurance and Social Justice		
Period when the underpinning research was undertaken: 2007 – 2012		
Details of staff conducting the underpinning research from the submitting unit:		
Name: John O'Neill	Role(s) (e.g. job title): Hallsworth Chair in Political Economy	Period(s) employed by submitting HEI: 2005 – present
Period when the claimed impact occurred: 2016 – 2020		
Is this case study continued from a case study submitted in 2014? No		
Section B		
<p>1. Summary of the impact</p> <p>Research by Professor John O'Neill and Professor Martin O'Neill (University of York) on fairness and flood insurance constituted a significant and substantial contribution to the existence of the flood reinsurance scheme <i>Flood Re</i>. This joint initiative between the UK government and the Association of British Insurers was designed to ensure affordable home insurance for high flood-risk residential property. O'Neill and O'Neill's 2012 report for the Joseph Rowntree Foundation argued that flood insurance should be based on principles of social justice rather than levels of risk. The report, and O'Neill and O'Neill's work in promoting it, was crucial in persuading the government and other stakeholders that <i>Flood Re</i> should be introduced. As of March 2020, over 300,000 properties have benefited from it and 80% of households with prior flood claims have seen a price reduction of more than 50% in their home insurance premiums.</p>		
<p>2. Underpinning research</p> <p>The <i>Flood Re</i> scheme, established in 2016, is a significant departure from the model of flood insurance proposed by the Department for Environment Food & Rural Affairs (Defra) in its 2011 report, <i>Flood Risk and Insurance: A Model for 2013 and Beyond</i>. One of the 'principles' of the 2011 Defra proposals was that 'flood insurance premiums and excesses should reflect the risk of flood damage to the property insured' (p.5). John O'Neill's and Martin O'Neill's 2012 research report [1] for the Joseph Rowntree Foundation (JRF) makes the case for an alternative conception of fairness in insurance that is solidaristic and risk-insensitive. As explained in Section 4 below, that justification played a key role in the acceptance of the scheme by the UK government and other stakeholders.</p> <p>John O'Neill's research has addressed the limitations of market-based responses to environmental problems (e.g. [2,3]) as part of his broader research on climate justice, and specifically on socio-spatial vulnerability to climate hazards. A range of personal and social factors (age, income, crime rates, local knowledge, social networks, etc.) make some people more vulnerable to harm as a result of climate hazards, such as heatwaves and flooding, than others; this is 'socio-spatial vulnerability'.</p> <p>In the 2011 research report [4] resulting from the JRF-funded project <i>Justice, Vulnerability and Climate Change</i>, O'Neill and his co-authors explicitly take the ability to take out insurance against flood damage to be part of one of the 'dimensions' of socio-spatial vulnerability: 'ability to prepare'. Various factors (primarily lack of wealth) make it more difficult for some people to avoid prohibitively high flood insurance costs because they are unable to move to a lower-risk area [4, p.9]. One of the key recommendations of this research was 'a shift to a more solidaristic [and hence non-market-based] scheme of</p>		

insurance that protects those who are disadvantaged' [4, p.12].

The second JRF-funded project – *Climate Change, Insurance and Social Justice* – resulted in the 2012 research report *Social Justice and the Future of Flood Insurance* [1], co-authored with Martin O'Neill (Philosophy, York). This research challenged the conventional thinking in the literature on the future of flood insurance, which is dominated by economic arguments for market-based insurance based on the premise that differentiating premiums by risk is both fairer and more efficient. O'Neill and O'Neill interrogate the notion of 'fairness' in play in these arguments. They argue that there are three distinct notions of fairness that we might use to determine how the costs of flood insurance are to be distributed fairly: "pure actuarial fairness", 'choice-sensitive fairness', and 'fairness as social justice'. According to 'pure actuarial fairness', insurance premiums should directly reflect an individual's risk level. According to 'choice-sensitive fairness', insurance premiums should reflect an individual's risk level only in cases where the risk is a result of their choices.

O'Neill and O'Neill argue that neither of these conceptions of fairness is appropriate for the distribution of the costs of flood insurance, arguing instead that the appropriate conception is 'fairness as social justice'. The basic idea is that flood insurance protects socio-spatially vulnerable people from the risk of the catastrophic economic shock that serious damage to one's home and loss of possessions that flooding can cause. Without that protection they are unable to make reasonable predictions about their future and hence unable to engage in certain kinds of long-term agency and planning. Flood insurance, O'Neill and O'Neill argue, is therefore a 'gateway good', which – as with healthcare and various kinds of public benefit – should be available to all, independently of their choices or their level of risk.

The *Flood Re* scheme offers risk-insensitive flood insurance: premiums are based on Council Tax banding rather than risk of flooding. It therefore achieves a notion of fairness that is considerably closer to the social-justice conception of fairness than it is to the 'pure actuarial' conception of fairness endorsed in the 2011 Defra report. O'Neill and O'Neill's research thus provided a solid intellectual justification for the shift to the flood insurance regime of *Flood Re*.

3. References to the research

1. **O'Neill, J.** & O'Neill, M. (2012) *Social Justice and the Future of Flood Insurance*. York: Joseph Rowntree Foundation (20pp.). www.jrf.org.uk/report/social-justice-and-future-flood-insurance
2. **O'Neill, J.** *Markets, Deliberation and Environment* (London: Routledge 2007)
3. **O'Neill, J.** 'Austrian Economics and the Limits of Markets', *Cambridge Journal of Economics* 36 (2012), 1073-90. doi.org/10.1093/cje/bes042
4. Lindley, S., **O'Neill, J.**, Kandeh, J., Lawson, N., Christian R., and O'Neill, M. (2011) *Climate Change, Justice and Vulnerability*. York: Joseph Rowntree Foundation (180pp.). www.jrf.org.uk/sites/default/files/jrf/migrated/files/climate-change-social-vulnerability-full.pdf

Research grants: [1] and [4] were both funded from JRF-funded projects: [1] *Climate Change, Insurance and Social Justice* (2010-11), PI **J. O'Neill**, Co-I M. O'Neill (GBP7,500); [4] *Justice, Vulnerability & Climate Change: An Integrated Framework* (2010-11), PI **J. O'Neill**; Co-I Sarah Lindley (Geography, UoM), GBP47,000.

Evidence of research quality: peer-reviewed journal article and monograph with a reputable publisher.

4. Details of the impact

Context

In 2011, the Department for Environment Food & Rural Affairs (Defra) released a report, *Flood Risk and Insurance: A Roadmap to 2013 and Beyond* [i]. 2013 was the expiry date of the 'Statement of Principles' on flood insurance [ii], a loose agreement between the UK government and members of the Association of British Insurers (ABI) that had been in place since the 1960s. In effect the Statement of Principles committed the insurance industry to insuring properties with a high (>1.3% annual) risk of flooding on condition that the Environment Agency had concrete plans to reduce flood risk to below that threshold. The 2011 Defra report listed as a 'principle' that 'Flood insurance premiums and excesses should reflect the risk of flood damage to the property insured' [i, p.5]; that is, it enshrined a commitment to 'pure actuarial fairness'.

O'Neill and O'Neill's JRF-funded research and the resulting 2012 report [1] were developed in response to the Defra report, and in the context of discussions between the government, the ABI and other stakeholders concerning the future of flood insurance once the Statement of Principles expired. The report played a pivotal role in the 2013 agreement between the government and the ABI to introduce the *Flood Re* scheme – a “world-first” [A, p.6] joint initiative designed to ensure affordable home insurance for high flood-risk residential property – whose statutory underpinning was established by the Water Act 2014.

Flood Re – run by a private not-for-profit company of the same name – rules out a fully risk-sensitive market in insurance (in the medium term – the current proposed lifetime of the scheme is 25 years). It works by imposing a levy on participating insurance companies (now 94% of the home insurance market) – raising GBP180,000,000 per year – in return for which those companies have the option of selling on the flood risk to *Flood Re* for a fixed cost. The result for eligible customers (that is, all those insuring residential property in the UK built before 2009) is that – if passing on the risk lowers the cost of their insurance – they are offered subsidised premiums that are independent of flood risk.

Beneficiaries

Flood Re offers insurance companies flood reinsurance (for both buildings and contents) priced according to Council Tax band and independently of risk, with a low, fixed excess of GBP250. The insurance companies are thus, in turn, able to offer their customers risk-insensitive flood insurance with an excess that is normally dramatically lower than previously. Thus the biggest beneficiaries of the scheme – and hence of the underpinning research – are insurance customers who live in low Council Tax band properties with a high risk of flooding, who have benefited significantly from a reduction in both their insurance premiums and the excess payable if they claim.

Pathways

The JRF report was the first to systematically examine underlying principles of justice that could be invoked in the justification of different insurance regimes. Early versions of the report were commented on by key players in the debates, in particular the National Flood Forum (NFF), the Morpeth Flood Action Group (MFAG) and the ABI. The report was launched by O'Neill at the NFF conference 'Insurance, Communities, Flood Risk: What

Will the Future Hold?' (March 2012), which was attended by – amongst others – representatives from the insurance industry and Defra Minister Richard Benyon.

During the period March 2012 – June 2013, O'Neill and O'Neill were in discussion about the future of flood insurance policy with MFAG and JRF, and with Defra, HM Treasury and other stakeholders, including NFF and ABI, to share perspectives as part of policy development.

As a direct result of these discussions, the Water Act 2014 established the statutory underpinning for the *Flood Re* scheme. The Chief Executive of the NFF stated in 2013 that the report “supported us in developing criteria [including ‘social justice’] to allow us to judge the different models proposed”. Those criteria were in turn “used endlessly” by the NFF in media interviews, Parliamentary briefings, etc. in the NFF’s work to “seek a solution to the flood risk insurance problem” [B].

Relating O'Neill’s work directly to *Flood Re* itself, the employee of the ABI who led the development of *Flood Re* (as Policy Adviser, Flooding from 2010 and then as Manager, General Insurance from 2013) says:

“... it was clear that some kind of cross-subsidy from those in low-risk areas would be required. But both sets of stakeholders [namely the UK and devolved governments on the one hand, and community action groups and charities such as the NFF on the other] needed convincing of the scheme’s merits. So far as I was (and am) aware, relatively little research had previously been done on the issue of fairness in insurance, and none at all in the specific context of UK flood insurance – where the issue is especially pressing given the wide variation in risk and the relative lack of informed choice that homeowners face when it comes to exposure to risk. The JRF report, both in distinguishing various different notions of ‘fairness’ as it applies to flood insurance and in presenting intellectually robust arguments in favour of ‘fairness as social justice’, was important in convincing stakeholders on both sides of the ABI’s view that Flood Re was the best possible replacement for the Statement of Principles. While Flood Re has of course been the work of very many people, making very different kinds of contribution, as explained above O’Neill’s and O’Neill’s work constitutes a significant and substantial contribution to its existence” [C].

Impact

Flood Re has had a very significant effect on the affordability and availability of household insurance for eligible homes. A House of Commons Library briefing paper (December 2020) states: “Since its launch, *Flood Re* has been able to report strong and clear benefits for most domestic customers in areas at risk” [D].

The briefing paper documents an example: a homeowner whose house had flooded just once in 30 years, in 2013. After the flood she was forced to take out home insurance policy that excluded flooding: “I haven’t been able to find any flood insurance that was anywhere near affordable. It was a GBP3,500 premium with a GBP30,000 excess in the first year”. After the introduction of *Flood Re*, policies “were available for as little as GBP425, with much lower excesses than had previously been available” [D].

The impacts below are taken from *Flood Re*’s Quinquennial Review in 2019 [A], which fulfils its statutory duty to report every five years to the Secretary of State, and its 2019/20 Annual Report [E]:

- More than 300,000 properties have benefited since the launch of the scheme in 2016, with 196,638 policies in 2019/20 [E].

- 80% of households with prior flood claims have seen a price reduction of more than 50% in their home insurance premiums [A].
- 98% of households with prior flood claims can now receive home insurance quotes from five or more insurers [E]. Prior to the launch of the scheme, only 9% could get two or more quotes and none could get five quotes [A].
- 94% of the home insurance market now offers the scheme [A].

References

- [i] *Flood Risk and Insurance: A Roadmap to 2013 and Beyond* (Defra, 2011), www.gov.uk/government/publications/flood-risk-and-insurance-a-roadmap-to-2013-and-beyond
- [ii] *Revised Statement of Principles: Flood Insurance Provision* (2008), www.gov.uk/government/publications/provision-of-flood-insurance-revised-statement-of-principles

5. Sources to corroborate the impact

- A. *Flood Re Regulation 27: The Quinquennial Review* (2019). www.floodre.co.uk/wp-content/uploads/QQR_FINAL.pdf
- B. Testimonial from the Chief Executive of the National Flood Forum, May 2013
- C. Testimonial from the Association of British Insurers employee who led the development of *Flood Re* (as Policy Adviser, Flooding from 2010 and then Manager, General Insurance from 2013), October 2020
- D. *Household Flood Insurance: Flood Re*, House of Commons Library Briefing Paper no. 8751, 16 December 2020, commonslibrary.parliament.uk/research-briefings/cbp-8751/
- E. *Flood Re 2019-20 Annual Report*, www.floodre.co.uk/wp-content/uploads/Flood-Re-Annual-Report-2020-FINAL.pdf