

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Seventh Delegated Legislation Committee

DRAFT FLOOD REINSURANCE (SCHEME AND
SCHEME ADMINISTRATOR DESIGNATION)
REGULATIONS 2015

DRAFT FLOOD REINSURANCE (SCHEME
FUNDING AND ADMINISTRATION)
REGULATIONS 2015

Tuesday 15 September 2015

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The Committee consisted of the following Members:

Chair: MR DAVID NUTTALL

- | | |
|---|---|
| † Benyon, Richard (<i>Newbury</i>) (Con) | Paisley, Ian (<i>North Antrim</i>) (DUP) |
| † Blackman, Bob (<i>Harrow East</i>) (Con) | † Phillipson, Bridget (<i>Houghton and Sunderland South</i>) (Lab) |
| † Cleverly, James (<i>Braintree</i>) (Con) | † Smeeth, Ruth (<i>Stoke-on-Trent North</i>) (Lab) |
| † Gardiner, Barry (<i>Brent North</i>) (Lab) | † Spencer, Mark (<i>Sherwood</i>) (Con) |
| † Heapey, James (<i>Wells</i>) (Con) | † Stewart, Rory (<i>Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs</i>) |
| † Howlett, Ben (<i>Bath</i>) (Con) | † Williams, Craig (<i>Cardiff North</i>) (Con) |
| † Long Bailey, Rebecca (<i>Salford and Eccles</i>) (Lab) | |
| † Lynch, Holly (<i>Halifax</i>) (Lab) | |
| Mc Nally, John (<i>Falkirk</i>) (SNP) | |
| McInnes, Liz (<i>Heywood and Middleton</i>) (Lab) | Sarah Thatcher, <i>Committee Clerk</i> |
| † Newton, Sarah (<i>Truro and Falmouth</i>) (Con) | |
| † Norman, Jesse (<i>Hereford and South Herefordshire</i>) (Con) | † attended the Committee |

Seventh Delegated Legislation Committee

Tuesday 15 September 2015

[MR DAVID NUTTALL *in the Chair*]

Draft Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015

2.30 pm

The Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs (Rory Stewart): I beg to move,

That the Committee has considered the draft Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015.

The Chair: With this it will be convenient to consider the draft Flood Reinsurance (Scheme Funding and Administration) Regulations 2015.

Rory Stewart: It is a great honour to serve under your chairmanship, Mr Nuttall. This is my very first time dealing with a statutory instrument, and I feel privileged to deal with this issue. As a Member of Parliament for a Cumbrian constituency, I, like many Members on both sides of the Committee, saw directly the devastation of flooding and felt directly the need to address the issue of flood insurance. In Eamont Bridge, for example, people are living in houses that were built in 1650—they have not been built recently on floodplains. I saw the total wrecking of people's lives there. They felt they would never be able to get insurance again and were deeply anxious about what the floods would mean for their house prices, their families and their possessions. I would also like to pay tribute to my hon. Friend the Member for Newbury, who put an immense amount of energy into very complex negotiations with the insurance industry, going from the statement of principles to the regulations that we are now in a position to debate.

As Members will be aware, the regulations ensure that under Flood Re, the flood insurance component of a buildings and contents policy for a band C home is anticipated to be £246 a year. Without Flood Re, and without the negotiation that my hon. Friend was so closely involved in, the price could be double that. Excesses, which can be in the thousands of pounds, will be limited to £250.

There are two sets of regulations to be debated today. The draft Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 set out the framework within which Flood Re will operate, how the levy will be calculated and the technical aspects of the scheme. The draft Flood Reinsurance (Scheme and Scheme Administrator) Regulations 2015 designate the scheme administrator and enable Flood Re to begin operating. I pay tribute to the public, who worked closely with us in the consultation, and to specialists from the Association of British Insurers, to individual insurers, to the Lloyd's market and to the financial regulators. I also pay tribute to the hon. Member for Brent North, who has been very

involved—he has discussed it with me personally on a number of occasions—to the Committee on Climate Change and to Lord Krebs, whom I saw this morning.

It is important that the regulations are debated now because Flood Re will be signing multimillion-pound contracts for their reinsurance before Christmas and because financial regulators are currently considering Flood Re's application for authorisation as a reinsurer, which is a highly rigorous and scrupulous process. Financial regulators and the insurance industry need certainty, and that is what the regulations are about. They provide for the legislative framework within which Flood Re will operate and for Flood Re to capitalise in order to meet its solvency requirements.

The making of the regulations, subject to parliamentary approval, needs to be carefully sequenced with the financial regulator's approval and authorisation process. At the point at which we intend to make the regulations, we will check with the Prudential Regulation Authority that Flood Re's application is still in the authorisation process. While the financial regulators cannot provide a definitive statement on the likelihood of an authorisation before the review is completed, that will provide an indication that the application is progressing and that financial regulators are in the process of formulating their view.

I shall now provide an overview of the major aspects of the regulations and deal briefly with individual issues including funding for Flood Re, public money, accountability and controls, premium thresholds, the review scheme every five years, the transition to the free market, and incentivising management of flood risk.

Flood Re will be funded by a levy raised from the relevant insurers. The amount of levy paid by each insurer will be based on the insurer's share in the UK home insurance market. A small number of companies currently control about 70% of the market, and they will contribute about 70% of the levy. The total amount of the primary levy to be raised from insurers will be £180 million. However, given the unpredictable nature of flooding and Flood Re's solvency requirements, an additional levy may be raised from insurers if needed.

The regulations set out the constraints that Flood Re needs to operate within, as the levy is likely to be classed as public money by the Office for National Statistics. This affects all the accountability mechanisms relating to Flood Re. Flood Re will operate independently as a normal reinsurance company regulated by the financial regulators, but, because of its unique position as a reinsurance company within the public sector, Flood Re is being set up as a bespoke arm's length body of the Department for Environment, Food and Rural Affairs. This means Flood Re will be directly accountable to Parliament—this is a key point—rather than to Government. There will be very limited Government oversight.

DEFRA Ministers—my colleagues and I—will remain accountable to Parliament for general policy matters relating to flood risk management, including flood insurance and the regulations implementing Flood Re. There will, however, be no role for Ministers in the day to day management of Flood Re. As with all public sector bodies, Flood Re will be required to manage itself within the normal requirements for regularity, propriety and value for money, and full parliamentary accountability. It will be audited externally, but the National Audit

Office will be able to conduct value-for-money reviews of any of its activities and report on those activities to Parliament.

The regulations and the scheme document set out the price that insurers will pay to cede policies to Flood Re. We call these, as Members will see in the documents, the premium thresholds, and they are payable by insurers according to council tax bands. The point is that we wish to target the benefits at the lower council tax bands. In other words, it is intended to be a progressive policy, and the intention is that those benefits will be passed on to the policyholders by the insurance industry.

The regulations require that Flood Re will review the level of the levy and the premium threshold at least every five years: in other words, it will try to calculate whether we have set the levy at the correct amount. Any changes to the scheme or levy would require amendments to regulations, which would have to be approved via an affirmative resolution process, and Ministers may also call a review of Flood Re at any point.

Members have shown considerable interest in how Flood Re will manage the transition to risk-reflective prices over the medium to long term. Flood Re will therefore publish a transition plan three months after the regulations come into force. That will be the first statement of how the transition will operate. It may then give indications of how prices will evolve during the life of Flood Re in order to encourage people to move towards risk-reflective pricing. But the financial regulators are clear that Flood Re cannot be bound to the indications because Flood Re's solvency has to be assured. Flood Re will also provide information about flood risk and the scheme for the insurers to pass directly on to their customers. In other words, insurers and customers will be kept fully informed about the flood risk.

Members may wish to push Flood Re further on what it can do to incentivise people to manage their own flood risk and to take resilience measures. Flood Re will consider the role of incentives for policyholders to manage their flood risk in its transition plan, and it has been agreed with Flood Re that it will do this within two years of becoming fully operational, but the focus now has to be set on getting this complex scheme right.

Flood Re, like all reinsurers, will be permitted by financial regulation only to carry out the business of reinsurance and related operations. Flood Re directors also have to be able to fulfil their prudential and fiduciary duties according to company law and financial services regulation. The Government see that as the best approach to the funding and administration of Flood Re to achieve the objective of affordability and availability of flood insurance.

Having made quite a technical, geeky speech about details, I will finish by saying that, in the end, we have to step back to where we were coming out of the floods. We were potentially facing a crisis in insurance. All of us would have received emails, letters and pleas from constituents desperately worried about insurance.

The proposal achieves two basic principles that should be dear to us all. The first is the principle of universality—in other words, to ensure that simply because somebody is unlucky enough to live in house, perhaps built 300 years ago, that has been flooded, perhaps due to changes in climate and matters well outside their control, they

should not suffer unduly. Secondly, it should be a progressive measure that ensures that the least well-off members of society are paying less than the better-off in the premiums they pay and the benefits they will receive from these schemes.

On that, Mr Nuttall, I commend the statutory instruments to the House.

2.41 pm

Barry Gardiner (Brent North) (Lab): It is a pleasure to rise to talk about these regulations under your guidance, Mr Nuttall. I do not intend to oppose either of the regulations before the Committee, but I must highlight two serious concerns that I have with the transition to risk-reflective pricing that the scheme is designed to achieve.

First, it is likely that the transition will compromise the availability and affordability of flood insurance, and that needs to be recognised. It is also likely that Flood Re will prove to be a waste of public money. Before I go to the specific points about the wording of the regulations, I want to put those remarks in context.

Flood risk is increasing because of climate change and new developments in flood-risk areas. Awareness of flood-risk households, where the risk is above one in 100, has declined. Government spending on flood defences fell over the past Parliament, although by setting a six-year framework the Government claimed to have spent more than the previous Government, though that was, of course, over a five-year period. It is set to fall further in this Parliament.

The risk of flooding is increasing and more properties are being built in high-risk areas. There is declining spending on flood-risk reduction and declining awareness of flood risk. That is the context for the Flood Re scheme. The possibility of loss, damage and injury from flooding is, therefore, increasing—in every sense, flood risk is increasing.

The scheme does not address the rising cost of flood risk for affected households or the public purse. The Government voted against six amendments that we tabled in Committee on the Water Act 2014 that would have required Flood Re to reduce the cost of flood risk. Those amendments would have required the scheme administrator to take account of actual and projected future flood risk as set out by the Committee on Climate Change and the Environment Agency. The Government refused to do that.

We would have given the scheme administrator powers to require flooded households to repair to a higher flood-defence standard. The Government say that that might be considered at the first review. In my view, those powers should be with the scheme administrator from the beginning and I believe that the industry would probably share that view.

The amendments would have required that the scheme administrator had to increase awareness of flood risk among policyholders, and actually take a proactive stance on liaising with policyholders on those matters. The scheme administrator would have been required to ensure that insurance is available to households that are unable to afford insurance on the free market.

The Government declined to support those amendments. I was delighted to hear that the Minister had spoken to Lord Krebs earlier today; when we tabled those

[Barry Gardiner]

amendments, it was Lord Krebs, as chair of the adaptation sub-committee of the Committee on Climate Change, who provided the supporting evidence. I am keen to hear what Lord Krebs had to say to the Minister about those aspects of the scheme. Of course, that view was also supported by evidence from the London School of Economics at that time.

As I said, our amendments were disregarded; the Government are using this publicly funded flood insurance scheme to insure against the cost of their own potential failure. As investment in flood defence is cut in line with the Government's plans, thousands of families may find themselves stuck in homes that become more and more expensive to insure. Climate change has already increased the frequency and severity of flooding, and the costs are rising. This publicly funded scheme allows the Government to transfer these costs on to households across the country, pushing the cost of climate change on to the most vulnerable. That is what risk-reflective pricing means in practice.

I return to my two specific concerns with the regulations as they stand. The public consultation on Flood Re, which ran from 22 July to 16 September 2014, stated that the aim of the proposed flood insurance scheme would be

"to ensure that domestic property insurance continues to be widely available and affordable in areas of flood risk, without placing unsustainable costs on wider policyholders or the taxpayer".

However, there is no mention of the availability or affordability of flood insurance in this enabling legislation. They are mentioned in the explanatory notes and were referred to many times during the debate on the enabling legislation, but they are not in the regulations, so it is not a duty of the scheme to ensure the availability and affordability of flood insurance.

Many responses to the public consultation counselled that to ensure availability and affordability, the scheme must be required to work in the public interest, with that being defined in the regulations. It is not defined in these regulations. Many responses, including that from the London School of Economics, also warned that the absence of a transition plan would threaten the availability and affordability of Flood Re.

It was my view, and still is, that a Flood Re transition plan should be produced by the Government, in consultation with the scheme administrator, the industry and the Committee on Climate Change. The primary delivery body for the transition plan should be the Flood Re managing agent, the scheme administrator, and DEFRA should take responsibility for reviewing their performance against the time-bound goals of the transition plan. Transition needs to be planned within the context of the overall flood risk management strategy, including details of future investment levels.

The decision to delegate transition planning to Flood Re, as currently proposed, is really a mutually convenient abdication of responsibility. The Government do not need to assess the likely efficacy of Flood Re against their flood risk investment plans, and the insurance industry can be confident that it can deliver its only objective: to manage the transition to risk-reflective pricing. I do not mean to labour the point, but the industry has simply got to produce risk-reflective pricing,

which, if the risk goes up, may be as high or much higher than what is today deemed to be an unaffordable cost.

Everything depends on the amount of money that the Government are prepared to put in. This scheme is a way of avoiding the problem and any need to make the uncomfortable acknowledgment that the price that reflects increased risk will be greater where the risk of flood becomes greater as a result of lower Government investment in flood defences, increased building on the flood plain or adverse climate change. That is the fear. Quietly and stealthily, the Government have delivered a new flood tax.

The adaptation sub-committee of the Committee on Climate Change suggested an amendment to the levy arrangement, which I believe the Government should have considered. The amendment would reduce the cost and the opportunity cost of the Flood Re funding arrangements.

The sub-committee also suggested that a more efficient model would be for Flood Re to collect a primary levy and to build reserves, but not to hold reinsurance at all. Instead, claims in excess of reserves would be mutualised—spread between the relevant insurers—on an annual basis via the ad hoc levy. If that resulted in a large claim on insurers, they would be able to call on the existing reinsurance treaties that they are required to hold in any event. That approach would have significantly reduced the costs of Flood Re and, in my view, it would improve the value that the public purse was getting from the scheme.

In summary, Flood Re could help to reduce flood risk, the cost of flooding and the pain and suffering of the households that the Minister eloquently discussed at the beginning of this debate. It does not do those things currently, and I fear that it may well waste public money that could be better spent on reducing those flood risks by increasing our flood defences.

2.51 pm

Richard Benyon (Newbury) (Con): I do not intend to detain the Committee for long. I add my congratulations to the Minister and all the others involved in getting us to the point—next April, I think—where the programme goes live. The team of officials supporting my hon. Friend have done extraordinary work over the last four or five years. They have even found success in working with the Treasury—and that, in the annals of Government, is something to be celebrated. I also include Huw Evans, the chief executive of the ABI, and his predecessor, who attended many long meetings—some in Downing Street, some at DEFRA—trying to bolt together something that would work.

It is worth, for just a few seconds, thinking about where we were. The statement of principles that so many Members on both sides clamoured for the coalition Government to continue, to roll over into the future, never could have been continued. First, it was time-limited; secondly, as my hon. Friend the Minister said, it had no limit on price. It was going to cause, as increased flood risk continued, a serious problem for constituents such as mine. In 2007, 3,000 households were flooded in west Berkshire and the stress and strain of that experience continues every time we have periods of heavy rain. Although many measures have been taken to stop such

floods from taking place, we can now give people the added security of affordable, available—and it is available—flood insurance that will make an extraordinary difference.

There were those who put pressure on us to say that the market could not cope and therefore the solution had to be statist. They were asking us to go down a route rather similar to the United States flood insurance fund, which is costing the US taxpayer—unfortunately, it is a bankrupt system. The threat of a large-scale flood event has caused that scheme to be practically unaffordable in the United States; that proves that we were right to try for a hybrid solution, working with the industry, in which the Government put in a commitment and legal framework to try to set up something that works. Our scheme's great benefit is that those with the broadest shoulders will bear the biggest burden.

The aim—this is what I want to press my hon. Friend the Minister on—is to move fast towards encouraging and incentivising households up and down the country to realise that if they take measures to secure their house against flood risk, they will benefit. They will start to be able to look at bespoke offers from insurance companies that will create great specialisms in this area. They will be able to have affordable solutions that will benefit them in the years to come. I dispute the idea that Flood Re is a waste of public money; I think it is vital spending that will be welcomed by hundreds of thousands of people up and down the country.

Flood spending has to increase, and I dispute the assertion of the hon. Member for Brent North that it does not. The Opposition amendments in Committee would have required us to go back to the Association of British Insurers and it to go back to its members and say, “Look, we have to tear up these very complex financial models that we have been working on for months and months to dance on the head of a pin.” At the end of the day, it would have failed. The Minister and his Department need to feel confident that they have brought forward the best possible solution that will be welcomed by households up and down the country.

2.55 pm

Rory Stewart: First, I pay tribute to the two Members who have made speeches, which were important in setting the context of the debate. They know the issue well. My opposite number, the hon. Member for Brent North, clearly laid out the context of rising flood risk and climate awareness and made us focus us hard on the issues of future flood resilience and the future costs of flooding. I will return to that at the end.

I particularly pay tribute to my hon. Friend the Member for Newbury. This legislation is, in the normal practice of politics, a great idea that will make a lot of difference to some of the most vulnerable people in society: the 2% who are about to lose their flood insurance or face completely unaffordable levels of flood insurance.

The regulations address the situation of people who are absolutely desperate. It would be a great pity if what is basically a good news story—however we disagree about the details of its exact implementation—about providing coverage for those people at an affordable rate were lost in discussions about the minutiae and different details. What will matter to householders is that they can get insurance at an affordable rate and it is progressive, with the rate paid by poorer households lower than the rate paid by wealthier households.

James Heapey (Wells) (Con): I thank the Minister and his predecessor for all their work on this issue. The regulations are hotly anticipated in Somerset, where they will bring not only insurance for many households, but real peace of mind. For two winters since the last major flooding event in the county, people have known that their homes have been uninsurable. The regulations are welcome, and I place on the record the enthusiasm of Somerset for all the security that they will bring.

Rory Stewart: I am grateful for that statement. I hope that right hon. and hon. Members will be able to communicate to their constituents and those concerned with flooding not only that we have managed to get to this stage, but that we are looking forward to next spring when the scheme is formally launched.

I want to touch briefly on the various points and criticisms made by the hon. Member for Brent North. I find some of them a little bewildering, and I would like to tease them out a bit more. His arguments seem to focus on four areas: awareness, affordability, the transition plan and the model of insurance.

To reassure him on awareness, an obligation is imposed through the regulations on Flood Re to communicate with the insurance industry and on the industry to communicate with the policyholders that they have entered the Flood Re scheme and that by definition they are therefore in the approximately 2% most vulnerable homes. Through the Environment Agency and our investment in new technology, we are absolutely committed to increasing our contact with people in the most vulnerable homes.

We have also been meeting in detail with different parts of the industry that are interested in providing flood resilience measures to individual households. There should be a potential market, and we need to develop it. Just as house and contents insurance has delivered developments in burglar alarms and other protective measures, it should be possible for flood insurance schemes eventually to drive a movement towards people taking resilience measures to drop their premiums. That is where we need to get to. We need a thriving, vigorous industry with a reasonable basic standard that can be offered to a household, saying, “If you do, x, y and z, the insurance industry will recognise that and drop your premium.”

Barry Gardiner: I am grateful to the Minister for his clarification of the points. Given that he believes there is not yet a certifiable standard for resilience measures to be put in, why does he seek not to give the power to the scheme administrator and Flood Re at this stage? They believe that such a facility is in place and that they can insist on resilience measures being put in as a condition of reinsurance. Why not give that power so that the industry can decide how it uses it, when it uses it and whether the market is ready to provide the appropriate benefits or not, rather than waiting for the Government to do a review and then decide whether they want to give the scheme administrator those powers?

I understand the problem. It may be that the market is not yet ready, but surely it is better to give the power to the scheme administrator straight away, so that the insurance companies can take the necessary action the moment they are ready, rather than waiting for a Government review.

Rory Stewart: There are essentially three separate problems with that proposal. The first is that the Flood Re administrator has no direct relationship with households. As the hon. Gentleman is aware, the Flood Re administrator's relationship is with the insurance industry, and the relationship of the individual insurance companies—for example, Direct Line or Axa—is with the individual household. Whatever measures one is trying to put in place, there needs to be an interaction between the insurance company and the individual household.

The second issue is around the nature of the financial regulations that set up Flood Re. Flood Re, like all reinsurers, is only permitted by financial regulation to carry out the business of reinsurance and related operations.

The third issue—perhaps the most important—is that within three months, Flood Re will produce a transition plan and within two years those resilience measures will be in place. However, in the end it is primarily the responsibility of Government to work with Flood Re, the insurers and the households to get those measures in place; the constraint on that, as the hon. Gentleman has indicated, is that the industry is not yet sufficiently developed to offer a standardised package. A burglar alarm is a much more straightforward thing.

Every one of these properties—not quite every one, but many of them—are in quite difficult, unique situations. The insurance industry is not yet in a position to be comfortable saying, “This exact measure on your door will reduce your insurance premium by £50”, in the way that it can with burglar alarms. It will take some time for what is basically a structure of small and medium-sized enterprises to be able to develop those products for the insurance industry.

The way in which the hon. Gentleman and I can engage in this process most directly is through the measures taken by the Environment Agency and, for the hon. Gentleman, more specifically through Parliament, to which Flood Re is accountable. It will be through Parliament's review of that three-month transition plan and the two-year actions that we will be able to put in place the measures that we need over the next 25 years.

Of course, the hon. Gentleman is right to say that the fact that the period is 25 years should not mean that we all go to sleep for that time, do nothing and end up dropping off the edge of a cliff. Twenty-five years should be able to give us the right path to get those proper structures in place. It is Parliament's responsibility to stay on top of that issue.

The second thing that the hon. Gentleman touched on was the question of affordability. He is correct that these statutory instruments do not deal with the duty of affordability. However, he will be aware that the duty of affordability is contained in the Water Act 2014, the debates on which he himself contributed to. Therefore, I do not believe that the duty needs to be in these statutory instruments.

Again, a statutory obligation is imposed through these statutory instruments to push forward with a transition plan. The most sophisticated arguments that the hon. Gentleman has made are around the question of mutualisation and insurance.

Barry Gardiner: There is something I would like to get on the record, Mr Nuttall. Importantly, the Minister has said that he believes that as the duty of affordability

is latent within the 2014 Act, it need not be in these regulations. I do not want to tie him down, because I want clarity, but I would like him to write to me, perhaps after this debate, to set out absolutely clearly that that is the position. That would be extremely helpful.

Rory Stewart: I will be delighted to. To clarify, we have to be very careful about what we mean by affordability. Clearly, under both domestic and European legislation, we are not allowed to fix prices. This is a market mechanism. We are relying on competition in the market to operate, the theory being that there would be no reason for an individual insurance company to place a £250 contract with Flood Re if it was not necessary to do so, because a competitor insurance company would be able to offer the same insurance for £50 to the householder and there would be no recourse to Flood Re.

All our affordability calculations are predicated on the assumption that normal market competition will operate. The affordability works through setting the individual premiums and guaranteeing that the £180 million pot will stand behind those individual payments, capping both the premium payment and the excess payment. That is its basis.

Barry Gardiner: I am really grateful to the Minister for engaging in this way. I understand what he says about affordability. On his definition, as long as the market is operating to have competition in place, the result is affordability. However, it is important to recognise that the risk of climate change is increasing and the severity of floods may also increase.

Although, in the purely technical sense that the Minister outlined, if the market is operating people are likely to get the lowest market rate, the ordinary householder may not experience affordable insurance premiums because the risk is increasing and the Government are building on the floodplain. In fact, all the industry has to do is ensure that the price reflects that risk.

Rory Stewart: From the insurance company's point of view, in the case of the households that are most at risk, Flood Re provides the ability to lay off the flood component of its household and buildings insurance, which for a basic rate council tax payer is in the region of the £220 to £250 mark. There would be no reason for an individual insurance company to make the flood component of its insurance exceed that amount—that is the purpose of the £180 million pot.

I agree, however, with the hon. Gentleman on the basic questions with which he began, and we certainly need to look at this during the next 25 years: building on floodplains, climate change and increasing flood risk. That will have an impact right across the industry.

Richard Benyon: I agree entirely with my hon. Friend. Can I urge the hon. Member for Brent North to be careful about making bland criticisms such as those about building on floodplains? London and York are floodplains. Do the comments apply to those great cities? The issue is about how we build on floodplains and how much flood resistance there is. We can all think of buildings on floodplains that were lunacy and should

never have happened—perhaps the Environment Agency was ignored—but such sweeping statements on this important issue need to be qualified carefully.

Rory Stewart: I am grateful to my hon. Friend, who is correct. Building on floodplains is a question of doing detailed calculations; the point is not that floodplains cannot ever be built on. Scotland provides a good example in the constraints that it has placed on building on floodplains, but Scotland has certain advantages in terms of population movements and the nature of the land.

As my hon. Friend said, there are technical solutions that allow for building on floodplains in Britain in a more sensible fashion, but most important of all is the natural capital calculation. We need to be much more realistic about looking at the social and economic costs of building on floodplains. What are the likelihoods of a risk? How much is that likely to cost the householder? How much misery and distress is that likely to cause them? What impact might that have on house prices? When all that is taken into account, someone might still, for particular reasons, decide to build on a floodplain. There could be very good reasons to go ahead, but they must ensure they have gone through the due diligence and looked at the potential costs and risks of doing so.

That brings me to my conclusion. This has been a good and testing debate, as I have come to expect from the hon. Member for Brent North, and it means that we are now one step closer to ensuring affordable insurance. I am reassured that the Opposition are not challenging the measures. I think Members across the Committee would agree that the work done over the past few months by my hon. Friend the Member for Newbury, by the insurance industry and by many of our civil

servants—who must be both relieved and exhausted at reaching this stage—has brought us to a pretty impressive model.

I would like the United Kingdom to boast about and share this model with the rest of the world, so that others can see how we have addressed the issue in a pragmatic and focused way. We have done it by working with the insurance industry instead of against it. We have included a very broad sweep of universal provision and have taken into account questions of transition. We have set up a 25-year process. All that shows long-term strategic thinking and market focus, which we should be proud of.

I thank the Committee for the opportunity to set out the Government's approach on Flood Re and the insurance industry for its hard work. This legislative framework is a good model for balancing pragmatic considerations of how a scheme can operate with public policy objectives. I commend the regulations to the Committee.

Question put and agreed to.

Resolved,

That the Committee has considered the draft Flood Reinsurance (Scheme and Scheme Administrator Designation) Regulations 2015.

**DRAFT FLOOD REINSURANCE (SCHEME
FUNDING AND ADMINISTRATION)
REGULATIONS 2015**

Resolved,

That the Committee has considered the draft Flood Reinsurance (Scheme Funding and Administration) Regulations 2015.—(*Rory Stewart.*)

3.11 pm

Committee rose.

