Good afternoon

Please find attached some further information as requested by the Committee. The question on the Access to Insurance Sub-Committee also refers to another document, which I've attached as well.

I hope that's helpful to see and of course please do get in touch if there is anything further we can help with.

Regards,

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Access to Insurance Sub-Committee – problem statement

Millions of working age UK adults in financially vulnerable circumstances do not have adequate financial resilience to protect against or absorb income shocks due to a combination of low levels of financial literacy, low incomes and a lack of disposable finances. Insurance for these groups is essential but the access to and affordability of insurance is a challenge for these households.

Of these, and for those in vulnerable circumstances and/or at risk of falling into financial vulnerability, access, take up and affordability challenges can be compounded for:

- The 57% of the 4 million households in the social rented sector (in England) and 25% of the 4.7 million private renter households, who receive housing support.
- Those living in the most deprived areas, often urban and ethnically diverse, where there is a higher frequency of claims and cost of claims.
- People in debt and/or with low income (e.g. state benefit dependent) who also rely on a car for work, childcare, care and other day-to-day essentials.
- 16.6 million people working for SMEs, those who are self-employed and in the gig economy who are less likely to have employer-provided benefits that support financial resilience.
- 15 -18 million people in the UK living with pre-existing medical conditions, such as mental ill health.
- 8.7 million of UK adults who say they have experienced economic abuse.
- Those who fall into financially vulnerable circumstances as a result of a life event such as divorce, bereavement, redundancy or ill health.

For these groups, different customer understanding, affordability, access and take-up challenges with income protection insurance, motor insurance, contents insurance, and travel insurance are barriers to improving financial resilience. These challenges are compounded by

- costs of claims (severity and frequency) that lead to higher premiums across the industry, but those who are financially vulnerable are more exposed to these higher risks and costs,
- the availability or difficulty of finding appropriate products that meet needs, and
- trust in the value of cover when there's competing financial pressures.

Yet everyone in society should have access to a suite of appropriate and affordable insurance and protection products, to build financial resilience, support work and employment opportunities and improve the economic potential of people in financially vulnerable circumstances. This has the added benefit of supporting the government's growth agenda and removing pressure from the state. Building this financial resilience requires collaboration, exploration of social benefits, innovative thinking and co-ordinated action across industry, consumer groups, regulators and government.

- **Any further information that you can provide regarding the practical operation of the 'Flood Re' fund;**

Flood Re is a reinsurance scheme that the ABI designed, developed and helped implement alongside the UK Government in 2016. Its aim is to make the flood cover part of household insurance policies more affordable for domestic properties deemed at significant risk of flooding by allowing an ongoing, competitive market for flood risk homes so that consumers can shop around and more easily find suitable policies. To date, Flood Re has helped over 500,000 households access insurance, with over 4000 policies in Northern Ireland.

It is run and financed by the insurance industry, with every insurer that offers home insurance in the UK required to pay into the scheme via an annual Levy. Insurers can then cede the flood risk element of a policy to Flood Re for a fixed premium based on the home's council tax band. Flood Re will then reimburse the insurer from the Flood Re fund if a valid flooding claim is made.

Flood Re is not a home insurer itself; instead, it sits behind the insurance market and operates on a business-to-business level with insurers rather than directly with customers, who still buy home insurance and make a claim in the usual way.

Their website contains a list of insurers who use Flood Re and the eligibility criteria. Notably, it does not cover businesses or new homes built after 2009 so as not to incentivise building new properties on flood risk areas. The ABI, along with BIBA and Flood Re, operates a Flood Insurance Directory, which connects homeowners and businesses to specialist insurers and also lists insurers that provide cover under the Flood Re scheme.

Flood Re was always intended as a temporary scheme and so it will cease to operate in 2039, by which time the insurance market is to return to fully risk reflective pricing for flood insurance. Flood Re is required by law to manage this transition and in July 2024 it published its Quintennial Review setting out how insurance will remain affordable and available after its exit. It is also required to publish a Transition Plan every five years, the latest of which includes how it intends to rise to the challenge of climate change adaptation and its commitments for the next five years.

In 2022 Flood Re launched its Build Back Better initiative. Insurers who are signatories of the scheme can offer householders the chance to install property flood resilience measures up to the value of £10,000 when repairing their properties after a flood, reducing the impact of future flooding. The eligibility criteria for Build Back Better are more flexible than for Flood Re and the 2009 build date criterion does not apply. The initiative now covers over 70% of the UK's residential property insurance market and, in its first major test last year, 1 in 3 eligible claims took up the scheme. This is a good start but we are now working to increase uptake even further, including in England and Wales by actively supporting the Environment Agency's Floodproof review on Property Flood Resilience (PFR). Further information on the Build Back Better scheme is available through Flood Re's website and details what insurers use BBB and how it works in practice.

- **Greater detail of additional, localised criteria that insurers use to determine premiums, e.g. flood risk, etc.;**

Decisions on how to price cover are individual commercial decisions for insurers to make. They make these decisions based on their risk appetite, calculated using a range of information and operating within a competitive market. There is not a uniform approach to assessing risk, nor do all insurers have the same risk appetite, target markets or breadth of product offerings.

When it comes to assessing flood risk, insurers use a range of information, including their own datasets and a variety of commercially purchased flood maps. In Northern Ireland commercial flood mapping for Northern Ireland is provided by companies including JBA, Fathom and Ambiental. These flood maps contain more detail than publicly available maps and help build a picture of the overall flood risk at individual property level (often down to 6 metre accuracy).

DfI Rivers also provides flood maps via Flood Maps (NI), but commercial customers such as insurers can use their flood mapping only provided they license the data from their business partners Land & Property Services (LPS).

Motor insurers in Northern Ireland, as in the whole of the United Kingdom, use a variety of factors when determining premiums. These include the driver's age, driving history, and the type of vehicle, among others. When it comes to Northern Ireland, as we outlined in our written evidence submitted as part of the Committee's Inquiry into the Northern Ireland Banking and Financial Services Landscape, there are also specific issues around higher accident rates that often lead to higher insurance claims (from both vehicle damage and personal injury). Insurers must also consider high repair costs and limited repair options when pricing premiums.

Any available information on the work of the Insurance sub-committee as part of the UK Government's development of a Financial Inclusion Strategy;

- The Financial Inclusion Committee (FIC) was set up in December to inform the creation of the government's Financial Inclusion Strategy. The work is split into three workstreams led by HMT (savings; problem debt; financial education and capability) and three led by Sub-Committees (digital inclusion and access to banking; access to credit; access to insurance). The ABI was asked to Chair the Sub-Committee on ‘Access to Insurance’.

- The Sub-Committee includes representatives from consumer groups, distributors, the FCA and insurers. It was tasked with agreeing a problem statement which was agreed by the FIC at its meeting on 20 March (see attached).
- HM Treasury set out the work is intended to complement, not duplicate, other programmes such as the Motor Insurance Taskforce.
- The Sub-Committee is tasked with identifying a small group of ‘ambitious’ recommendations to make to the FIC in June. When the Sub-Committee was asked which products to prioritise, income protection came top followed by motor and contents. Travel was last and although it seems the least relevant to the target segments, it remains in scope as both industry and consumer reps agree there may be easy wins to improve access. The Sub-Committee is also considering the cross-cutting themes of mental health and economic abuse in the interventions it develops.
- The Sub-Committee is working through draft interventions to bring back for discussion at its meeting on 29 May where it will agree which to recommend to the Financial Inclusion Committee in June.

As part of the ABI's work on motor insurance affordability, we're working closely with the UK Government to support vulnerable and lower-income individuals as part of its Financial Inclusion Strategy, and engaging with Department for Transport and HM Treasury on the Motor Insurance Taskforce. Our 10-point Motor Affordability Roadmap update report sets out the progress made in key areas.

- **Any further detail that can be provided on NI premiums rather than quotes.**

We do not currently publish ABI average premium data broken down by UK nation or region. While we are looking into whether this may be possible in the future, we would need to carefully consider whether publishing premium (pricing) data in a more granular way is within the constraints of competition law. (Competition laws can prohibit the sharing of certain commercially or competitively sensitive information, which can include pricing information.)

We do publish average premiums for the UK as a whole as part of the ABI’s motor and household insurance premium trackers. Our Motor Insurance Premium Tracker analyses nearly 28 million private comprehensive motor policies sold a year (7 million a quarter), covering both new and renewing customers, and our Household Insurance Premium Tracker covers around 4 million polices per quarter.

These are the only trackers based on the actual price paid. Other trackers exist and some price comparison websites such as CompareNI publish premium data for Northern Ireland, but these are based on a snapshot of quotes received, rather than premiums paid. Quote-based trackers tend to result in higher average figures and do not cover renewals or customers who go direct to an insurer or source their insurance through a broker.

We explain the differences between different motor insurance price trackers and some of the constraints of quote-based trackers in more detail on our website, here.