

WATER ACT 2014

EXPLANATORY NOTES

COMMENTARY

Part 4

Flood Insurance

The Flood Reinsurance Scheme

Section 66: Scheme funding

234. This section covers measures needed to fund the FR Scheme. Subsection (1) provides a power for the Secretary of State to make regulations with the consent of the Treasury, requiring relevant insurers to pay a levy in accordance with the regulations (see subsection (1)(a)) or such further amounts as may be requested by the FR Scheme administrator in accordance with the FR Scheme (see subsection(1)(b)). It is intended that all insurers underwriting household buildings and/or contents insurance policies in the UK would be required to pay a levy and ad hoc payments to the FR Scheme administrator.
235. The levy that may be imposed under subsection (1)(a) is designed to replace the current, informal cross-subsidy in the market between those at low and high risk of flooding that has historically subsidised the flood cover that is made available to those at high risk.
236. Ad hoc payments could be required from relevant insurers under subsection (1)(b) from time to time, should the FR Scheme have insufficient income from the premium incomes and the levy payments to meet its outgoings. Subsection (2) specifies that the regulations under subsection (1)(b) may set out the circumstances under which a request for ad hoc payments may be requested, and set out limits on what amount could be requested for that top up funding.
237. Subsection (3) provides for the FR Scheme administrator to pursue non-payment of the required levies and payments from individual insurers as a civil debt. Subsection (4) provides for regulations regarding the use of the levy and ad hoc payments, for instance to allow the FR Scheme administrator to cover its administrative costs. Subsection (5) gives the Secretary of State the power to make regulations requiring that, where conditions set out in the regulations are met as regards the reserves of the FR Scheme, the FR Scheme administrator must pay an amount of the reserves to the Secretary of State. These regulations will require the consent of the FR Scheme administrator, which may not be unreasonably withheld.