

---

## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

The Water Act 2014 (“the Act”) contains new arrangements designed to promote the availability and affordability of home insurance in areas of high flood risk.

These Regulations set out the funding arrangements for the Flood Reinsurance Scheme (“the FR Scheme”) and the administrative requirements for the running of the FR Scheme by the Flood Reinsurance Scheme administrator (“the FR Scheme administrator”). The FR Scheme and the FR Scheme administrator are designated by the Secretary of State in the Flood Reinsurance (Scheme and Scheme Administration Designation) Regulations 2015.

Part 2 of these Regulations define the terms ‘relevant insurer’, ‘flood’ and ‘household premises’ for the purposes of the Act.

Part 3 of these Regulations deal with the funding of the FR Scheme. Regulation 6 defines a relevant insurer’s ‘gross written premium’ for the purposes of that Part. Regulation 6 also sets out the circumstances where the transfer of home insurance to a relevant insurer during the previous calendar year should be included in the calculation of that relevant insurer’s gross written premium.

Regulation 7 requires relevant insurers to provide information on their gross written premium for the previous calendar year to the FR Scheme administrator.

Regulation 8 places a requirement on relevant insurers to pay a levy to the FR Scheme administrator and sets out how the levy will be calculated. The levy payable by each relevant insurer is to be calculated as a proportion of the total levy using information on the relevant insurer’s gross written premium for the previous calendar year. Where a relevant insurer fails to provide the information under regulation 7, regulation 8 also provides that the gross written premium will be estimated by the FR Scheme administrator on the basis of information reasonably available.

Regulation 9 stipulates that the levy will be due on the 1st April of each financial year, and that the levy will be payable by each relevant insurer in instalments in accordance with arrangements set by the FR Scheme administrator. Regulation 9 requires the FR Scheme administrator to make adjustments to instalments of the levy payments requested, should further information be received which means that an adjustment is necessary. Regulation 9 also sets a two year time limit within which any adjustments must be made.

Regulation 10 requires relevant insurers to pay an additional levy if requested in writing by the FR Scheme administrator where certain requirements are met. The requirement to pay the additional levy does not apply if the relevant insurer has already received a request from the FR Scheme administrator to pay the additional amount by way of contribution, and that relevant insurer has fulfilled that payment request.

Regulation 11 sets out requirements the FR Scheme administrator must meet when making a request for an additional levy or contribution. The additional amount payable by each relevant insurer is to be calculated using the formula set out in regulation 11. The additional amount to be requested from each relevant insurer is a proportion of the total additional amount, and is to be calculated using information on the relevant insurer’s gross written premium for the previous calendar year.

Regulation 12 sets out that the FR Scheme administrator must calculate the additional amounts requested from each individual insurer on the basis of information reasonably available when the request is made. Should further information come to light after that initial calculation, which means that an adjustment between relevant insurers is necessary, the FR Scheme administrator must make such adjustments in the form of balancing refunds to or balancing payments from each individual

relevant insurer (but not amend the total additional amount requested). Regulation 12 also sets a two year time limit within which any adjustments must be made.

Regulation 13 sets out the purposes for which the levy collected under regulation 8 or any additional amounts collected under regulation 10 may be used. Regulation 13 also confirms that these Regulations do not prevent or require the repayment of contributions, and that this does not affect the requirement to make an adjustment in regulation 12(1)(b).

Regulation 14 provides for unpaid levy to be collected as a civil debt.

Part 4 of these Regulations deal with the levels of reinsurance premiums to be charged by the FR Scheme administrator. Regulations 15 to 18, with the tables in the Schedule, set out the maximum (the thresholds) the FR Scheme administrator may charge relevant insurers for reinsurance premium in respect of the flood risk element of an insurance policy. Regulation 19 provides for those thresholds to be adjusted each year in line with the change in value of the all items consumer prices index.

Part 5 of these Regulations make provision for the administration of the FR Scheme. Regulation 20 requires the FR Scheme administrator to take into account specified matters when discharging its functions. Regulation 21 sets out restrictions on the FR Scheme administrator when it is discharging its functions.

Section 64(2)(b) of the Act sets out that one of the purposes of the FR Scheme is to manage, over the period of operation of the Scheme, the transition to risk reflective pricing of flood insurance for household premises. Regulation 22 requires the FR Scheme administrator to have regard to the need to manage the transition to risk reflective pricing. Regulation 22 also places a requirement on the FR Scheme administrator to produce and publish a transition plan.

Regulation 23 requires the FR Scheme administrator to appoint the person acting as its Chief Executive Officer as its responsible officer and sets out the duties of the responsible officer in relation to the FR Scheme.

Regulation 24 provides powers for the Comptroller and Auditor General to carry out examinations into the economy, efficiency and effectiveness with which the FR Scheme administrator has used its resources. There is also power to carry out examinations into the propriety and regularity with which the FR Scheme is operated. Regulation 24 also provides powers of access to necessary documentation for the examinations, as well as requiring those with custody of such documentation to cooperate with requests for necessary information and explanation.

Regulation 25 requires the FR Scheme administrator to provide any information which the Secretary of State may reasonably require for the purposes of government accounting. This requirement will apply should the FR Scheme impact on government accounts.

Regulation 26 places requirements on the FR Scheme administrator to provide information on specified matters to relevant insurers, so that they may then supply that information to holders of insurance policies which are reinsured under the FR Scheme.

Regulation 27 sets out arrangements for the review of the FR Scheme by the FR Scheme administrator and the production of a report by the FR Scheme administrator which must be provided to the Secretary of State for consideration.

Regulation 28 places a requirement on the FR Scheme administrator to produce a report should the total amount of funds which are called by the FR Scheme administrator from relevant insurers by way of contribution exceed £100 million at any time.

Regulation 29 amends section 69(3)(d) of the Act, so that the primary legislation refers to the new “National Address Gazetteer” which has replaced the “National Land and Property Gazetteer” as the name of the publication which now produces the unique property reference number.

As a tax measure, an Impact Assessment (IA) is not required alongside these Regulations. An IA was prepared to inform consultees during the consultation processes. The relevant sections of the IA are

*Document Generated: 2024-07-09*

**Changes to legislation:** *There are currently no known outstanding effects for the The Flood Reinsurance (Scheme Funding and Administration) Regulations 2015. (See end of Document for details)*

attached as an Annex to the Explanatory Memorandum, alongside a note setting out updated costs, assumptions and implications. A copy of the IA can also be obtained from The Flood Insurance Team, Nobel House, 17 Smith Square, London, SW1P 3JR.

**Changes to legislation:**

There are currently no known outstanding effects for the The Flood Reinsurance (Scheme Funding and Administration) Regulations 2015.