

Social justice and the future of flood insurance

Viewpoint
Informing debate

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Catastrophic flooding events have become increasingly frequent in the UK and, with climate change, are likely to become even more frequent in the future. This *Viewpoint* argues that social justice demands an insurance regime based on principles of solidarity, which guarantees access to flood insurance for vulnerable households. If the UK flood insurance regime moves further towards a free market, it will be at the expense of fairness and social justice.

Key points

- The UK flood insurance regime is in a period of change, with the imminent expiry in 2013 of the 'Statement of Principles' between the Government and the Association of British Insurers (ABI).
- In considering what should replace these Principles, two contrasting models can be distinguished:
 - *individualist, risk-sensitive* insurance, provided through a market in which individuals' payments are proportional to their level of risk;
 - *solidaristic, risk-insensitive* insurance, in which those at lower risk contribute to the support of those at higher risk.
- The UK is currently moving towards an increasingly individualistic, market-based approach to flood insurance, in contrast to the more solidaristic approaches in most comparable countries.
- We distinguish three approaches to 'fairness' in the provision of flood insurance:
 1. 'pure actuarial fairness' – insurance costs to individuals should directly reflect their risk level;
 2. 'choice-sensitive fairness' – insurance costs to individuals should reflect *only* those risks that result from each individual's choices;
 3. 'fairness as social justice' – insurance in the provision of goods that are basic requirements of social justice should be provided independently of individuals' risks and choices.
- 'Pure actuarial fairness' does not provide a compelling approach to flood insurance. This *Viewpoint* defends the 'fairness as social justice' approach, but shows that both approaches two *and* three provide strong grounds for a more solidaristic flood insurance regime.
- The purely market-based alternative threatens to leave many thousands of properties uninsurable, leading to extensive social blight.
- There are a number of possible flood insurance models that would deliver fairer and more sustainable outcomes. There is, therefore, an overwhelming case for rejecting a free market in flood insurance after 2013.

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