

Institution: The University of Manchester
Unit of Assessment: 32 (Philosophy)
Title of case study: Market-governance: Biodiversity, Climate Change and Insurance
<p>1. Summary of the impact</p> <p>This impact case emerges from a series of research projects in the Philosophy Department at the University of Manchester (UoM) concerned with limitations in the market modes of governance that are increasingly dominant in environmental policy making. The primary impact has been on current policy debates concerning the future of flood insurance in the UK. In collaboration with the Joseph Rowntree Foundation, the research provided a philosophical grounding for those amongst flood affected communities, and the insurance industry, who have argued against a risk sensitive free market in insurance and for solidarity in flood insurance. This has had a significant impact on Government negotiations on the future of flood insurance – a pressing issue, as the current policy lapses in 2013 – as well as the position of the opposition Labour Party. Subsidiary impacts have been evident on the work of international NGOs working on environmental justice and debates on emerging biodiversity offset markets.</p>
<p>2. Underpinning research</p> <p>Key researchers in <u>Philosophy</u>: Professor John O'Neill (2001-2002, 2005-present); Professor Thomas Uebel (1993-present); Dr Michael Scott (2003-present); Dr Paul Knights (2012-present). Key collaborators at UoM: Dr Martin O'Neill (Hallsworth Research Fellow in Political Economy, 2007-2009); Professor Ada Wossink (Department of Economics, 2009-present).</p> <p>Core Research: This case builds on a body of research in the philosophy department at UoM, initially undertaken by O'Neill and Uebel when the former was a visiting Hallsworth Research Fellow on the project 'From Socialist Calculation to Environmental Valuation: Economics and Philosophy in the Thought of Otto Neurath' (2001-2002). This research considered the relationship between the work of Neurath in the socialist calculation debates, and its subsequent role in the development of arguments within the tradition of ecological economics concerning the limits of market modes of governance for the valuation of environmental goods [C][F]. The programme of research continued when O'Neill was appointed as Hallsworth Professor in 2005, and has led to further publications, including more general critical responses to economic defences of markets in the environmental sphere [B][D][E]. <u>A number of European projects on the market valuation of environmental goods have also been undertaken during this time.</u> O'Neill, Scott and Knights are currently involved in a major European project that considers the limits of economic valuation in biodiversity policy, and the defensibility of emerging biodiversity off-set markets – 'Motivational Strength of Ecosystem Services and Alternative Ways to Express the Value of Biodiversity' (BIOMOT, 2011-2015, €490,000). Additionally, O'Neill is a partner in the EU 'Environmental Justice Organisations, Liabilities and Trade' (EJOLT) project, which brings together academics alongside global NGOs and civil society actors working on environmental justice, liabilities and trade. For EJOLT, O'Neill has composed an internal discussion document on the role of monetary valuation in the distinct contexts of cost-benefit analysis and compensation cases for environmental damage.</p> <p>Policy Application: Recent research has achieved direct policy impact, with the most significant project 'Climate Change, Insurance and Social Justice' (2011), funded by JRF. Within the final report the limitations of markets for climate change policy was considered. Existent work on the use of market based forms of governance in climate change policy has been largely concerned with the use of emissions trading schemes for climate mitigation. In contrast, this project considered adaptation policy, in particular the use of insurance markets in climate adaptation. The recent literature on the future of flood insurance is dominated by economic arguments for market-based insurance policy, which claim that differentiating premiums by risk is both fairer and more efficient. Against this view, the final report 'Social Justice and the Future of Flood Insurance' defended a more solidaristic approach in which those at lower risk support those who suffer from higher risk. [A]</p> <p>Through a consideration of underlying principles of justice, the report provided a distinctive contribution to debates about the future of flood insurance in the UK. This was especially timely as</p>

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the current agreement (the 'Statement of Principles') between the Association of British Insurers (ABI) and the UK Government is due to end in 2013. The report contrasted two models for the future of insurance:

- **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

Against the view being developed in government documents, that risk-sensitive insurance is both more efficient and fairer, the report argued that justice required rather a more solidaristic approach. It distinguished three different approaches to 'fairness' in the provision of flood insurance:

- **pure actuarial fairness** according to which insurance costs to individuals should directly reflect their risk level
- **choice-sensitive fairness** according to which insurance costs to individuals should reflect *only* those risks that result from each individual's choices
- **fairness as social justice** according to which insurance in the provision of goods that are basic requirements of social justice should be provided independently of individuals' risks and choices

The report argued that 'pure actuarial fairness' cannot provide a compelling approach to flood insurance. It defended the 'fairness as social justice' approach, but it showed that neither this approach nor 'choice-sensitive fairness' could justify a free market in insurance that was fully sensitive to risk. Both give good grounds for a more solidaristic flood insurance regime.

3. References to the research (all references available upon request - AUR)

The research has been published in a sole authored monograph, a policy report and a number of high quality peer reviewed journals, in Philosophy and Economics.

- [A] (2012) O'Neill, J. & O'Neill, M. 'Social Justice and the Future of Flood Insurance' (York: Joseph Rowntree Foundation) (AUR)
- [B] (2012) O'Neill, J. "Austrian Economics and the Limits of Markets" *Cambridge Journal of Economics* 36(5) (REF 2014) 1073-1090 doi:10.1093/cje/bes042
- [C] (2008) Uebel, T. "Calculation in Kind and Marketless Socialism: On Otto Neurath's Utopian Economics" *The European Journal for the History of Economic Thought* 15(3) 475-501 doi:10.1080/09672560802252354
- [D] (2007) O'Neill, J. *Markets, Deliberation and Environment* (London: Routledge) (RAE 2008) (Google Scholar: 96 citations) (AUR)
- [E] (2006) O'Neill, J. "Knowledge, Planning and Markets: A Missing Chapter in the Socialist Calculation Debates" *Economics & Philosophy* 22(1) 55-78 doi:10.1017/S0266267105000702
- [F] (2005) Uebel, T. "Incommensurability, Ecology and Planning: Neurath in the Socialist Calculation Debate 1919-1928" *History of Political Economy* 37(2) 309-342 doi:10.1215/00182702-37-2-309

4. Details of the impact

The principal area of impact has been in current policy debates on the future of flood insurance in the UK. The report was particularly opportune, as flood insurance policy is currently under review by the Department for Environment Food & Rural Affairs (DEFRA), with their initial 2011 report 'Flood Risk and Insurance: A Roadmap to 2013 and Beyond' arguing for a free market in flood insurance that is fully sensitive to risks of flooding. This position was criticised by John O'Neill and Martin O'Neill in their JRF report [A] that the JRF noted "*is important as it is a clear example of where social justice considerations need to be taken into consideration in policy development in light of climate change and where the issues need addressing together*" [1].

The JRF report was the first to systematically examine underlying principles of justice that could be invoked in the justification of different insurance regimes. This was integrated into a detailed discussion of the existing distribution of flood insurance, alongside international comparisons of different insurance systems. Earlier versions of the report were commented on by key players in

the debates, in particular the National Flood Forum (NFF), the Morpeth Flood Action Group (MFAG) and the Association of British Insurers (ABI). The latter noted that the report “helped a variety of stakeholders (insurers, community groups etc.) elucidate their feelings about what is the ‘right approach’ to dealing with catastrophic flood risk in the UK, in a professional and credible way. The thorough discussion of different concepts of ‘fairness’, has provided proponents of ‘pooling solutions’, such as the ABI, with reassurance that they are making the right arguments and chasing the right solutions to what is a very difficult and emotive problem... The JRF report was, and continues to be, a very helpful and timely piece of work for the ABI internally... [I]t is always reassuring to know that the principles of a policy proposal have credible academic backing” [2].

At the time the JRF report was published, those speaking on behalf of flooded communities, such as NFF and MFAG, were together with the ABI arguing for different versions of more solidaristic schemes, as against the free market position that was emerging from DEFRA. The JRF report was launched (after DEFRA’s report) to the NFF conference ‘Insurance, Communities, Flood Risk: What Will the Future Hold?’ (7th March 2012). As JRF confirm, alongside representatives from the insurance industry, “the event was attended by Defra Minister Richard Benyon, Shadow Minister Gavin Shuker and Liberal Democrat Stephen Gilbert. All were made aware of the report, Gavin Shuker endorsed it and the Minister promised to follow up on it” [1]. As the NFF Chief Executive explains: “The launch of the report at the National Flood Forum conference was timely... [I]t provided an explicit dimension, social justice, that lies at the heart of the concept of insurance, but which is rarely articulated. The portrayal of different aspects of social justice allowed people to better understand some of its complexity, but also to consider what insurance is for and how the different models address this. The report also demonstrated to Government that there was an academic underpinning to the views of stakeholders... [S]ocial justice has been at the heart of the debate over the last year, with ministers repeatedly asserting that they wish to put in place something rather better than the existing Statement of Principle, so this work has been particularly influential in supporting the debate.” The research enabled the NFF to develop a ‘consensus note, delivered to DEFRA in March 2013. Commenting on the JRF report, the NFF chairman noted that: “whatever the new [Secretary of State] eventually decides, I am convinced that this had a significant impact on the policy makers” [3].

During the period March 2012-June 2013, John O’Neill and Martin O’Neill have been in ongoing discussions about the future of insurance policy with MFAG and JRF. As the JRF programme manager verifies: “The JRF raised the issues at a national coastal erosion and flood risk management forum convened by Defra and the EA and subsequently the JRF and research team were invited to discussions with Defra, HMT and other stakeholders [including NFF and ABI] about the issue to share perspectives as part of policy development” [1]. Meetings were also held with the Labour Party’s shadow ministerial team, with Gavin Shukar MP (Shadow Minister for Water and Waste) making a number of references to the JRF report influencing Labour Party policy on the future of flood insurance. He notes: “Leaving this issue to the free market ducks the challenge of fairness and equity. It is simply untenable to leave homes and businesses to unfettered risk from flooding. This issue of fairness ...is one made well by Martin O’Neill and John O’Neill... They make the case for a government as an arbiter of fairness in determining a societal view of flood risk [4].

The JRF report continued to have a significant impact on discussions between DEFRA, H.M. Treasury, the insurance industry and the major flood action groups. Indeed, MFAG testimony – from a meeting between the NFF and the ABI – noted: “It was agreed that the JRF report has altered the playing field. Defra and HMT are only too aware of this” [5]. The report was also successful in influencing wider debates around climate justice, appearing in a Guardian newspaper article that quoted the NFF Chairman’s assertion that the JRF report “gives overwhelming weight to the case for government to step up to the plate to ensure that the market in flood insurance is fair and equitable. On present evidence they need to do more” [6]. As he subsequently elucidated, the work was vital in shaping the debate at a pivotal moment during 2012, assisting the NFF “by developing the intellectual argument for social justice in flood insurance - something we believed to be true but could not have presented in the way [the report] did” [3]. Longer pieces have also appeared in specialist magazines, such as *Energy & Environmental Management* [6].

In June 2013, DEFRA announced a new agreement that *“after negotiations with the Association of British Insurers (ABI)... replaces the current ‘Statement of Principles’ that runs out at the end of July and will bring peace of mind to people who will soon need to renew their insurance. The new agreement will cap flood insurance premiums, linking them to council tax bands so that people will know the maximum they will have to pay. To fund this, a new industry-backed levy will enable insurance companies to cover those at most risk of flooding. All UK household insurers will have to pay into this pool, creating a fund that can be used to pay claims for people in high-risk homes.”* [7]. The new agreement is a compromise document which in the short term rules out a fully risk sensitive market in insurance and introduces a form of cross-subsidy from low to high risk households. The NFF chief executive was cautiously optimistic: *“What we don’t have are answers to the impact on households, and how affordable and accessible this scheme will be for people, and whether it protects those who are vulnerable... However, this is the preferred approach because it actually does what insurance is supposed to do, which is providing cover for everybody and sharing risk between them, whereas other models didn’t do this”* [8] However, the government has retained its view that in the longer term policy should shift towards a market-based approach that is fully-risk sensitive. Ongoing work by John O’Neill and Martin O’Neill continues to influence the development of JRF’s critical response to this aspect of the new agreement, in particular through the Government’s own consultation on the policy and related draft flood insurance clauses in the new Water Bill 2013-2014 (HC Bill 82).

Additional impacts have followed around biodiversity protection and environmental compensation. Internal reports for EJOLT have dealt with questions concerning the consistency of NGO critiques of the monetary valuation of environmental goods in the context of both cost-benefit analyses, and the acceptance of monetary damages in legal compensation cases. O’Neill’s contribution considered a legal case against Texaco in Ecuador, arguing that contrary to some economic theories, the two attitudes present – forward-looking cases of cost-benefit analysis, and backward-looking cases involving compensatory justice – are consistent. This has informed several NGOs. *Accion Ecologica* in Ecuador note that it has assisted them in developing a response to compensation cases in the context of Ecuador’s constitutional recognition of: *“nature as a subject of rights... include[ing] that the right to restoration should be independent of the obligation of the State, private individuals or corporations, to compensate the individuals and communities affected”* [9]. Similarly, the UK NGO Cornerhouse has recognised the value of the work, noting that: *“O’Neill’s analysis of the vexed question of how environmental movements can consistently criticize cost-benefit analysis while at the same time defending claims for monetary compensation for past harms is very useful for current debates within the environmental movement and between environmentalists and their opponents. Among other things, it helps activists avoid being wrong-footed by opponents who insist that they must either give up their opposition to being ‘bought off’ or forgo claims to monetary compensation for past damages”* [10].

5. Sources to corroborate the impact (all claims referenced in the text)

- [1] Testimonial from Programme Manager, Climate Change and Poverty, JRF (5th June 2013)
- [2] Testimonial from Policy Advisor (Flooding), Association of British Insurers (11th April 2013)
- [3] Testimonial from Chief Executive, National Flood Forum (20th May 2013); Email from Chairman and Trustee, National Flood Forum (10th April 2013)
- [4] (2012) Shukar, G. ‘High-Risk Stakes on Flood Insurance’ The Huffington Post (8th March)
- [5] Email from Alan Bell, Morpeth Flood Action Group (30th March 2012)
- [6] (2012) Bachelor, L. ‘Flood insurance: Residents left high and dry as last low-cost insurer gets out’ The Observer (3rd March) & ‘Flood-hit homeowners should invest in own defences, says minister’ The Guardian (7th March); (2012) ‘State must pay more for flood protection to avoid ghettos, say insurers’ Energy and Environmental Management (7th March)
- [7] (2013) DEFRA ‘Press Release: Flood insurance agreement reached’ (27th June)
- [8] (2013) The Guardian ‘Flood insurance deal sees fears recede over future cover’ (27th June)
- [9] Testimonial from *Accion Ecologica* (31st May 2013)
- [10] Testimonial from Co-director, Cornerhouse (26th May 2013)