



FCA Consumer Duty and GI update

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Branko Ltd

FCA compliance consultants

- * BIBA/AMII Compliance Manual
- * Engaging Events
- * Tailored Solutions



Today's event

- Questions very much welcome
- You will get the slides
- Feel free to connect with me on [LinkedIn](#).



Learning outcomes...

By the end of this talk you will have gained an insight into:

- What is Consumer Duty and core components of this
- Key GI issues
 - Pricing and Product Governance
 - Multi-occupancy insurances



Bear in mind...

- Today is not formal 'advice'
- It is an **overview** in my own words of the key issues
- Please take up whatever professional help you need to ensure your business remains compliant
- BIBA Compliance Manual will be updated shortly



Today

1. Consumer Duty overview
2. Pricing Rules (home and motor only)
3. Product Governance
4. Multi-occupancy



1. Consumer Duty



A new Consumer Duty Feedback to CP21/36 and final rules

Policy Statement
PS22/9

July 2022

Finalised Guidance

FG22/5 Final non-Handbook Guidance
for firms on the Consumer Duty

July 2022

91 pages PS
121 pages guidance
+
68 pages of
new rules

(The word “value” is mentioned 368 times)

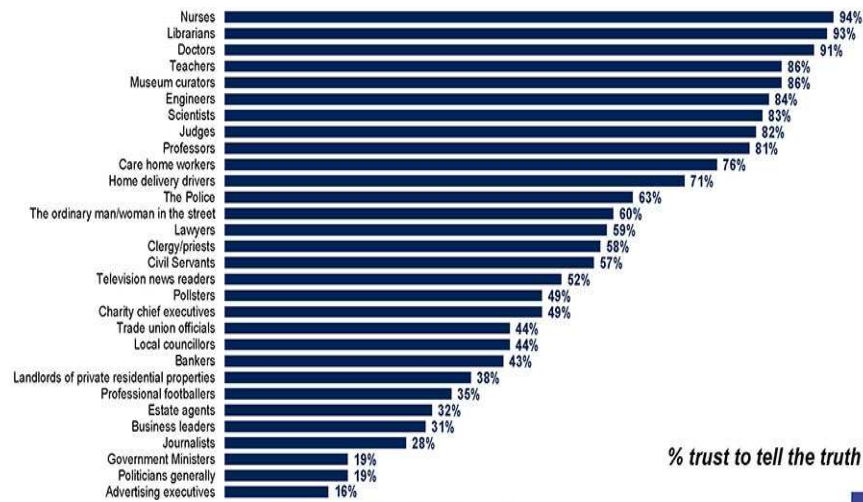
Why and how

- Customers are being sold products that they don't need, that cost too much and they experience poor service (can you speak to someone?)
- Pressure on FCA to get tough and CD gives FCA intrusive and proactive powers to do so
- Still negative perception of the sector with customer feedback being far from receptive
- Despite TCF and the customers best interests rule (acting honestly, fairly and professionally) the expected change in culture has not happened
- Lack of trust abounds
- Government hardly impressed



Veracity Index 2021 – all professions

"Now I will read you a list of different types of people. For each would you tell me if you generally trust them to tell the truth, or not?"



Base: 1,007 and 1,009 British adults aged 18+, interviewed by telephone 29 Oct – 4 Nov and 5 – 10 November 2021
 © Ipsos | Veracity Index 2021 | November 2021 | Version 1 | Public



New Consumer Duty



Raising the standard of consumer protection

Now

Financial markets don't always work well for consumers and firms are not consistently and sufficiently prioritising good consumer outcomes. Too often, consumers:

- Don't get the benefits or value they should expect from products and services
- Don't get the information or help they need, when they need it.

Under the new rules

The new Duty will mean firms focus on getting things right in the first place by:

- Always putting good consumer outcomes at the centre of their businesses
- Focusing on the diverse needs of their customers at every stage

This will mean consumers can make good financial decisions and have greater trust in firms

Higher standards for firms mean better outcomes for consumers

Consumers equipped to make effective decisions

Getting the information they need at the right time and in a way they can understand



Products and services that give fair value



Firms sell products or services at a fair price that reflects their benefits



Consumers protected from unreasonably high fees and charges

Helpful customer service

Responsive and accessible consumer support



As easy to switch, cancel or complain as it was to buy the product or service



Products and services that are fit for purpose



With terms and features that match the needs of the consumers they're for



Products and services work as expected

Consumer Duty Structure



New Principle 12

- A firm must act to deliver **good** outcomes
 - what the customer wanted from the product
 - ensure they have a “no regrets” purchase

The scope for “customer/consumer” does include most forms of commercial business to incl SMEs (an excl for large risks and group commercial)



Cross-cutting rules

1. firms must act in good faith

- Being honest, fair and open

2. firms must avoid foreseeable harm

- Consider the product design, terms, marketing and communications to identify possible causes of harm
- Take action to reduce (or highlight) the potential harm that might occur over the lifetime of the product, including new harms that are identified post-sale

3. firms must enable and support customers to pursue their financial objectives

- Enabling customers to make good decisions by considering their immediate and longer-term objectives
- Providing clear information for the customer to aid their decision-making



The Four Outcomes

1. Products and Services
2. Price and Value
3. Consumer Understanding
4. Consumer Support



- 1. Products and Services** - provide a product that meets the needs of the identified target market, both new sales and existing customers. Distribute the product via appropriate channels, for example, considering if it can be sold with or without advice
- 2. Price and Value** - ensure customers get fair value from their product and services and undertake regular value assessments with sharing of information between the manufacturer (typically the insurer) and distributor(s)
- 3. Consumer Understanding** - providing the right information at the right time, so that it can be understood and enable decisions that support good outcomes. Test whether the communications drive the right actions
- 4. Consumer Support** - customers can use products as expected, realise the benefits and not face unreasonable barriers e.g. claim, make changes, cancel or switch (incl the method of engaging)



What does this mean?

- Regular product reviews and fair value assessments will apply to all products (open and closed)
- Pricing Practices introduced an annual review (for GI this is on a forward-looking basis only)



Consumer Duty Key milestones

1

27 July 2022:

Final rules and guidance published.

2

31 October 2022:

Firms' boards (or equivalent management body) should have agreed their implementation plans and be able to evidence they have scrutinised and challenged the plans to ensure they are deliverable and robust to meet the new standards.

3

30 April 2023:

Manufacturers should have completed all the reviews necessary to meet the outcome rules for their existing open products and services so they can share with distributors to meet their obligations under the Duty, and identify where changes need to be made.

4

31 July 2023:

Implementation deadline for new and existing products or services that are open to sale or renewal.

5

31 July 2024:

Implementation deadline for closed products or services.

www.fca.org.uk/firms/consumer-duty

2. Pricing Rules



Scope

- **Motor + home + additional products sold alongside (legal expenses, breakdown, premium finance, etc)**
- Firms to offer a renewal price that is no higher than the ENBP for that customer through the same sales channel
- Insurers and intermediaries involved in price-setting
- Brokers that determine their own remuneration (net rates) or impose fees/charges
- Gibraltar based firms also included



Further...

- Price-walking is banned
- Applies also to closed books (what is now the most equivalent product)
- Senior Managers to personally attest (and report to the FCA) annually that pricing models comply
- Records of pricing considerations to be kept
- Existing customers to benefit just as much as new customers from any discounts



Incentives

Type of incentive	Must be reflected in ENBP?
Toys	No
Carbon off-setting	No
A percentage chance to win back the premium	No
Points in a retail loyalty scheme	Yes
Retail vouchers	Yes
Cashback	Yes
A free add-on	Yes
One month free	Yes
A monetary discount on the premium	Yes
A percentage discount on the premium	Yes

The examples in the table above are not exhaustive, as it is not possible for us to anticipate every type of incentive that firms may offer their customers in the future. We expect firms to make reasonable judgements based on the rules and the similarity of other incentives to those in the table.

ENBP - Equivalent New Business Price

If NB commission is reduced/given away this needs to be considered when determining ENBP



Interesting...

- A firm must notify the FCA if it becomes aware that any other firm in the distribution chain is not or may not be complying with the rules in this chapter (ICOBS 6B2.45R)
- Existing renewal disclosures apply and a firm should not discourage customers from shopping around and records need to be kept to evidence this
- Renewal fees/charges cannot be higher (and what are these actually for?)



Premium Finance (retail)

- Cost of finance at renewal should be no higher than if at NB but cost can vary between customers due to credit risk
- Explain cost with/without PF and state PF cost
- Statement more expensive to use PF
- Duration of policy and PF if different
- Customer to make an active election
- PF you provide and the remuneration you receive must not conflict with the customer's best interests rule to act **honestly, fairly and professionally**
- Regular review of arrangements



To consider

- Is the PF consistent with your obligations across the FCA Handbook and the customer's best interests rule?
- Specifically PRIN 1, 6 and 8 - integrity, TCF and management of conflicts of interest
- This incls APR uplift, remuneration or inducements offered or accepted from providers (cash, commission, goods, hospitality or training)
- Broker fee waived if instalment plan is the insurer's own one? Discount therefore?



Issues

- You will need to compare the insurer's premium finance options (if any) with your own standalone provider and offer the cheapest or disclose the fact that you will only offer the most expensive
- If you up the APR or your margin then you need to tell the customer you are doing this
- If you only have one provider you should tell the customer that they could finance the premium cheaper elsewhere
- Is what you earn fair and why did you select that arrangement?



3. Product Governance



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29 July 2022

Dear Sir/Madam,

Product Governance and Fair Value – General Insurance and Pure Protection

Background

In May 2021, we published [Policy Statement 21/5](#) (updated in [PS 21/11](#)) setting out our final rules on insurance pricing and the enhanced product governance. These were designed to improve competition and ensure firms offer fair value products to consumers.

The enhanced product governance rules came into force on 1 October 2021, and apply to manufacturers and distributors of all general insurance and pure protection products (except [contracts of large risks](#) or reinsurance contracts).

In August 2021, we conducted a market survey which assessed firms' readiness to comply with the final rules. Following this work, we sent a letter to all insurance intermediary firms with general insurance permissions setting out that we expected those firms to:

- establish whether it was a manufacturer or distributor of general insurance or pure protection products (excluding contracts of large risks or reinsurance contracts);
- assess the impact of the enhanced product governance rules on the firm; and

FCA's beef?

- Products have to be assessed as providing fair value by 30 September 2022 and if this is not done, **they can no longer be sold**
- Rules were published on 28 May 2021 (effective 1 October 2021) and insurers have left things far too late (thus more work from brokers)
- Generic online statements are not enough and you can't assume all is OK without asking what brokers do themselves to impact value
- Massive variations in insurer output and many have not done all that was needed
- "We are disappointed with the progress made"



What do brokers need to do?

1. Assess impact of any distribution arrangements and whether these provide/enhance fair value
 2. Engage with manufacturers to obtain their value assessments
 3. Provide manufacturers with all relevant information to enable them to assess whether your fees/charges, add-on products, finance costs and distribution arrangements impact fair value
- Potential for serious consumer detriment



3 month extension...

The circumstances that must be met for this forbearance to apply are:

1. The distributor has identified the impact that the distribution arrangements have on the value of the product by 30 September 2022 and has completed any identified remedial action as a result of its assessment.
2. The distributor has complied with any requests from the manufacturer for information specified in PROD 4.3.10BR.
3. The distributor is able to demonstrate that they received the manufacturer's value assessment too late for them to be reasonably expected to meet their obligations by 30 September 2022.

The above forbearance in relation to understanding the manufacturer's value assessment does not affect distributors obligations to comply with the rest of PROD 4.3. If a distributor identifies that a product is not providing fair value and this has been caused by the distributor's distribution arrangements, including its remuneration arrangements, the distributor must take appropriate remedial and mitigating action under PROD 4.3.11AR, which may include, where appropriate, redress.



Branko Bjelobaba FCII • You

FCA GI consultancy and enjoyable training | Compliance Manual | Comment...

3w • Edited • 🌐

So, we have just two months to go before insurer value assessments have to be completed (30th September) but many brokers are telling me that that insurers are still not sending out the forms/requests to ascertain what brokers are doing themselves that could alter product value which they then need to consider in the round to assess overall product value. ...see more



Adam Townley ACII and 47 others

7 comments · 2 shares



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💬 Comment

➦ Share

✉️ Send



5,220 impressions

[View analytics](#)

insuranceage

Experts warn of 'huge threat' and no 'get out of jail' card in FCA letters



The rules then?

Scope

- **Retail + commercial + pure protection + additional products sold alongside (incl premium finance)**
- Firms to consider the value that a product is likely to offer at inception, through the initial insured period and at subsequent anticipated renewals
- If fair value cannot be demonstrated product should no longer be sold
- To consider target market, distribution channel and legacy products



Where?

- 1.4.7 R *PROD 4* applies to a *firm* with respect to activities carried on from an establishment maintained by it, or its *appointed representative*;
- (1) (for all insurance products and *pathway investments*) in the *United Kingdom*; and
- (2) (in addition, for *non-investment insurance products*) overseas, in relation to an insurance product that is, or will be, marketed or distributed, or there are policies under the product that remain in force, in the *United Kingdom*.

[Note: in respect of (1), article 7(2) of the *IDD*]

contracts of large risks

(in *ICOB*S and *PROD*) *contracts of insurance* covering risks within the following categories, in accordance with the *UK* provisions which implemented article 13(27) of the *Solvency II Directive*:

(a) *railway rolling stock, aircraft, ships* (sea, lake, river and canal vessels), *goods in transit, aircraft liability* and *liability of ships* (sea, lake, river and canal vessels);

(b) *credit* and *suretyship*, where the policyholder is engaged professionally in an industrial or commercial activity or in one of the liberal professions, and the risks relate to such activity;

(c) *land vehicles* (other than *railway rolling stock*), *fire and natural forces*, other *damage to property, motor vehicle liability, general liability*, and *miscellaneous financial loss*, in so far as the *policyholder* exceeds the limits of at least two of the following three criteria:

(i) balance sheet total: €6.2 million;

(ii) net turnover: €12.8 million;

(iii) average number of *employees* during the financial year: 250.

[Note: article 13(27) of the *Solvency II Directive* and article 2(1)(16) of the *IDD*]

Enhancing value

- Value means the relationship between the total price to the end customer and the quality of the products and services provided by all parties
- A firm must not use a distribution channel unless it is able to demonstrate **clearly** that the channel results in fair value
- Certain profit optimisation practices may not offer fair value - auto-renewals, use of PF, fees/charges (what are these for?), chains, etc
- Intermediaries to include a review of distribution arrangements (to incl remuneration arrangements) at least every 12 months



- (1) the nature of the product including the benefits that will be provided, their quality, and any limitations
- (2) the type and quality of services
- (3) the expected total price to be paid and the elements that make up the total price. This will need to include consideration of at least the following:
 - (a) the **pricing model** used to calculate the risk premium
 - (b) the **overall cost to the firm** and any other components of a package
 - (c) the **individual elements** of the total price including:
 - (i) the **insurance product** (including any additional features)
 - (ii) any **additional products** (including retail premium finance)
 - (iii) the **distribution arrangements** (including the remuneration of any relevant person in the distribution arrangements, and including where the final decision on setting the price is taken by another person)
- (4) how the distribution arrangements support, and will not adversely affect, the intended value of the product



Information to use/share?

1. Customer research (direct engagement with customers to ask how things went)
2. Claims information (frequency, acceptance rates, average payouts, disputed, etc - is the policy doing what it should, i.e. paying out?)
3. Public information (social media, etc - is it being received well/customers experiences?)
4. Distribution arrangements - remuneration and its impact and the levels or quality of service provided by any person within the chain



Further...

- Firms to review all products at least every 12 months (starting 1 October 2021 and more frequently if a product has a higher risk of generating harm)
- **Value assessment to be undertaken to include distribution strategy and how this influences value (incl remuneration awareness for the chain) and distributors to have an involvement in this**
- Amend distribution process if this results in harm
- Remind that assessment of D&N is continual



Senior Managers

- A firm's governing body has ultimate responsibility for product governance arrangements
- It must ensure that the firm complies
- FCA remind firms that they must have a Senior Manager responsible for compliance with the regulatory system to incl product governance and pricing
- It should be clear which SM has responsibility for these areas (check your SoR)



Fair value for non-investment insurance products: distribution arrangements

4.2.14N R A firm must, as far as reasonably possible, ensure the distribution arrangements for a non-investment insurance product avoid or minimise the risk of negatively impacting the fair value of the insurance product or package. This includes, but is not limited to:

- (1) avoiding or reducing the risks arising from:
 - (a) any remuneration of a party, or parties, involved in the distribution arrangements increasing, directly or indirectly, the total price paid by the customer without adequate monitoring or oversight of the nature, level and fairness justification for their inclusion; or ★
 - (b) providing discretion to another person to set the final price, for example through a net pricing arrangement, without adequate monitoring or oversight of the final price paid by the customer; ★
- (2) ensuring that appropriate arrangements will be in place to identify if the actions of another person involved in the distribution arrangements would adversely affect the value of the insurance product or package; and ★
- (3) reducing the scope for the overall effect of any distribution arrangements to detrimentally affect the value of the products or package including where the cumulative effects of the remuneration of multiple parties unreasonably add to the overall price paid by the customer. ★

4.2.14O G (1) Where the firm is considering the effects of the distribution arrangements on value it should consider whether the additional costs of any individual party in the arrangements that add to the total price paid by the customer deliver any, or a proportional, additional benefit. If not, firms should consider how they can be satisfied that the arrangements are consistent with their obligations to be able to clearly demonstrate fair value to the customer. ★

4.2.14P R A firm must obtain from any person in the distribution arrangements all necessary and relevant information to enable it to identify the remuneration associated with the distribution arrangements to allow it to assess the ongoing value of the product, including at least:

- (1) the type and amount of remuneration of each person in the distribution arrangement where this is part of the premium or otherwise paid directly by the customer, including in relation to additional products (other than where this relates to another non-investment insurance product for which the firm is not a manufacturer); ★
- (2) an explanation of the services provided by each person in the distribution arrangements; and ★
- (3) confirmation from any firm in the distribution arrangements that any remuneration is consistent with their regulatory obligations including SYSC 19F.2 (IDD remuneration incentives). ★

Must provide on request...

- 4.3.10B R For the purposes of *PROD 4.3.10UK*, a *distributor* must provide on request to a *manufacturer* of a *non-investment insurance product*:
- (1) information on the *distributor's* remuneration in connection with the distribution of the insurance product; ★
 - (2) information on any ancillary product or service that the *distributor* provides to the *customer* (including insurance add-ons, non-insurance *additional products* and *retail premium finance*), which may affect the *manufacturer's* intended value of the insurance product; and
 - (3) confirmation that the distribution arrangements are consistent with the obligations of the *firm* under the *FCA Handbook* including in particular in *SYSC 10* (Conflicts of interest) and *SYSC 19F.2* (IDD remuneration incentives). ★



Little cracker here...

- 4.3.6D G The following evidential provision provides examples of arrangements the *FCA* considers will breach *PROD 4.3.6AR*.
- 4.3.6E E (1) A *firm's* distribution arrangements including any distribution strategy it sets up, should not result in:
- (a) the *firm* receiving a level of remuneration which does not bear a reasonable relationship to the *firm's* actual costs, or their contribution, level of involvement or the benefit added by them, to the arrangements for the distribution of the product, including where the *firm* provides little or no benefit beyond that which the *customer* would receive if they obtained the insurance product through another distribution channel; ★





LMA9197 - Product Value - Information Exchange Template

The Product Value – Information Exchange Template is designed to assist product Manufacturers and Distributors in meeting the requirements of the FCA PROD rules (PROD 4.2.29 R and PROD 4.2.14 P) relating to information exchange which are shown in the blue boxes below.

Manufacturers and Distributors

The term “Manufacturer” refers to a firm substantially involved in creating, developing, designing and/or underwriting a contract of insurance. As such, managing agents/insurance companies will always be product manufacturers. They may be co-manufacturers with a Distributor when the Distributor also meets the definition.

Generally a Distributor will be some form of intermediary, either authorised or exempt by the FCA. A Distributor would also include introducers.

Requirements and Responsibilities

The fair value assessment is the responsibility of the Manufacturer of a product, which will typically be the insurer unless otherwise agreed with the intermediary in a formal agreement.

ONEROUS Issues

- What value do the existing distribution arrangements provide to the end customer and what does each party in the chain do to enhance value?
- Are such arrangements unnecessarily complex which might mean customers are at greater risk of not receiving fair value?
- Firms must not use a distribution channel unless it results in fair value and regular reviews now needed
- Commercial business is included so **this will include arrangements with property managing agents and persons not regulated under FSMA**



In a nutshell

- Joint obligation - insurer and broker
- Agree what roles each party has in the manufacturing and/or distribution process
- Understand if what you do adds or detracts from the value of the product
- Is there anyone else in the chain and if so
 - what do they do?
 - how much do they get paid for it?
 - is this fair?
 - how does any of this add value to the end customer?
- Brokers to incl net rated and what fees/charges are for - what **extra** value do these provide?



4. Multi-occupancy



Multi-occupancy

- Increasing costs being passed to leaseholders and tenants (people at the end of all of this despite the policyholder being a commercial customer)
- FCA expect adequate resources incl knowledge and expertise to provide an appropriate service
- Intermediaries (and anyone else involved in the distribution) should not adversely affect the value of the product/are insurer commissions excessive?
- Does the commission you receive (and the PMA) bear a reasonable relationship to the benefits/services provided and the costs incurred? Higher premiums mean more commission but what extra is being provided?
- Refusal to disclose commissions



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Upper tribunal rejects second attempt at dumping £355,000 Virgin Active gym debt onto the leaseholders' service charges at prime London Docklands site

Christodoulou's Yianis Group also criticised for corporate restructuring to noble section 24 court appointed management

★ **Christodoulou's insurance broker Reich, which is Financial Conduct Authority regulated, ordered to disclose spreadsheet showing any commissions baked into premiums following Communities Secretary Michael Gove ordering joint FCA / Competition and Markets Authority probe into spiraling leasehold insurance costs**

Judge Martin Rodger QC dismayed by the billionaire freeholder's 'extremely unattractive' approach to tribunal

Early Day Motions

[UK Parliament](#) > [Early Day Motions](#) > [Financial Conduct Authority and leaseholders property insurance commissions](#)

Financial Conduct Authority and leaseholders property insurance commissions

EDM 1121: tabled on 24 March 2022

Tabled in the 2021-22 session.

This motion has been signed by 1 Member. It has not yet had any amendments submitted.

Motion text

That this House demands that the Financial Conduct Authority (FCA) requires its regulated entities to disclose to residential leaseholders all commissions, remuneration, other fees and excessive costs associated with property insurance premiums paid by the leaseholders; asks the FCA to note the unfair delays and unnecessary costs in the two and a half years of hearings involving Reich Insurance Group and Canary Riverside Estate Management and Octagon Overseas Limited; and asks Government to make sure leaseholders are given details without having to apply for the information or to go to the tribunal.

Leasehold Reform (Disclosure and Insurance Commissions) Bill [HL]

[AS INTRODUCED]

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INSIGHT


Insurance sector can no longer turn ‘a blind eye’ to property cover commission impact on leaseholders

By Saxon East | 6 April 2022

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Industry experts and campaigners feel the FCA is not doing enough to protect leaseholders from opaque commission practices in property insurance



Insurance Times

Proposed Leasehold Reform bill a ‘red flag’ for industry over property insurance commission disclosures

By Yiannis Kotoulas | 29 July 2022

‘Millions of people’ could be insured ‘for a lot less’, says financial compliance firm principal

The Leasehold Reform (Disclosure and Insurance Commissions) Bill – which would mandate compulsory commission disclosure by landlords – was presented as a private members bill to the House of Lords earlier this month (14 July 2022).

Introduced by Lord Kennedy of Southwark, the bill would also prevent landlords recovering service charges from their leaseholders if they failed to comply with their disclosure obligations.

While private member bills rarely make their way into law, the fact that members of Parliament have begun to agitate for this issue is further evidence of the way the wind is beginning to blow for the insurance sector.



Read more... Insurance sector can no longer turn ‘a blind eye’ to property

Report on insurance for multi-occupancy buildings


September 2022

Insurance Distribution Landscape

Note: This diagram is an example of a typical distribution chain. The distribution chain and the location of the regulatory perimeter can vary depending on the parties involved and the activities they undertake.

Freeholder/Landlord Owns the freehold of a property – the policyholder

Role/responsibility Responsible for maintaining and repairing the exterior and common parts of a building; this includes arranging the buildings insurance



Grants a leasehold

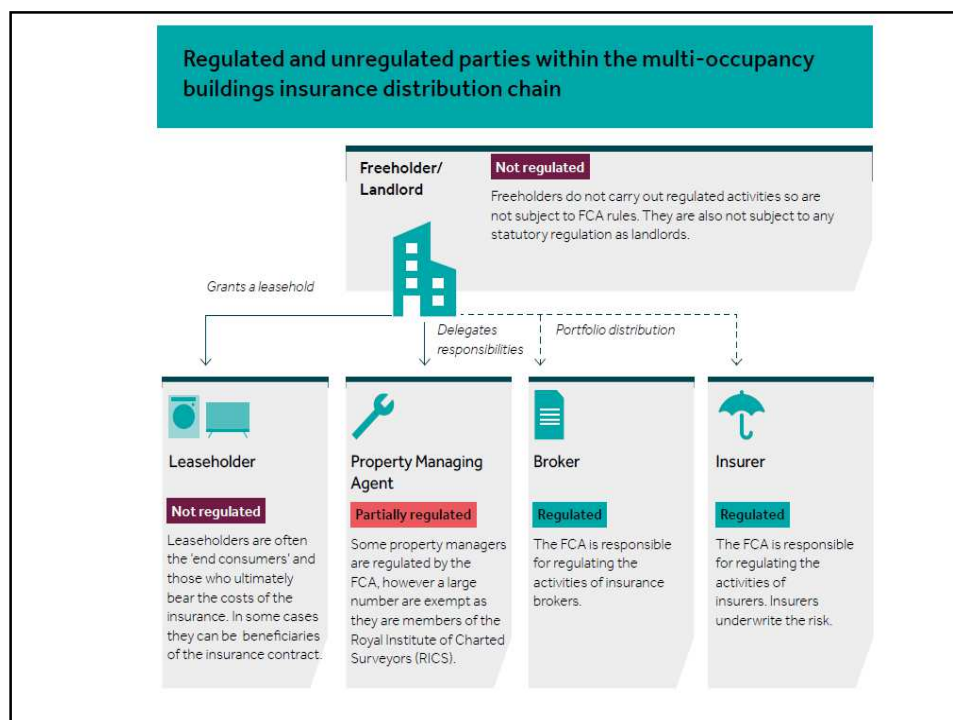
Delegates responsibilities

Portfolio distribution

<p>Leaseholder</p> <p>The 'end customer' – beneficiary of the insurance contract between the freeholder and the insurer.</p> <p>Role/responsibility Pays for the insurance cost through the service charge</p>	<p>Property Managing Agent</p> <p>Appointed by the Freeholder / Landlord to manage the property on their behalf</p> <p>Role/responsibility Arranging for insurance cover and collection of premium via service charge</p>	<p>Broker</p> <p>Intermediary between Property Management Agents and insurers</p> <p>Role/responsibility Identifies the insurance products that best meet the demands and needs of the customer</p>	<p>Insurer</p> <p>Offers building insurance covering the risk</p> <p>Role/responsibility Product manufacturer and determines the risk premium</p>
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Other related parties

Government Legislation	RICS Standards	Banks Mortgage provider	Surveyors Provide EWS1 forms	Reinsurers Provide reinsurance
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What's been said?

- Directed at mid and high-rise blocks of flats (90,500 such blocks in the UK and 9,300 have flammable cladding)
- Sample was 17 insurers and 26 brokers (some 374,000 bits of data analysed)
- Commissions in range from 10% to 62% (average was 30%) and these are of significant concern
- Insurance costs have gone up 125% since 2016 and limited number of insurers operating in 3+ floor market
- Lack of transparency and increased costs leading to significant distress with leaseholders and tenants

Some options?

1. Pooling arrangement to increase competition
2. Greater transparency and better disclosure
3. Hard disclosure of commissions to all
4. Address remuneration practices and commissions
5. Insurers working with FCA on better risk data



Department for Levelling Up,
Housing & Communities

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The Rt Hon Simon Clarke MP
*Secretary of State for Levelling up Housing &
Communities*

**Department for Levelling Up, Housing and
Communities**
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

21 September 2022

Dear Steve,

Actions from the Financial Conduct Authority's (FCA) report on the buildings insurance market for multiple-occupancy residential buildings

I am writing to you in light of the FCA's report into buildings insurance for multiple occupancy buildings, dated 21 September 2022.

The report has brought to light disturbing evidence on remuneration practices. Broker commissions account for 30% of the premium and the average absolute value of commissions has more than tripled for brokers between 2016 and 2021 (261% increase) to a mean of £4,690 per building. In most cases the broker shares their commission with the managing agent/freeholder: in more than half of cases, these parties receive 50% or more of the commission given to the broker. It is unclear how these practices can be of any benefit to leaseholders.

The financial pressure currently placed on leaseholders is unacceptable. The real-world increase in the commissions passed to managing agents at the expense of leaseholders is amoral, lacks a connection to delivering a fair and quality product and must cease as a matter of urgency.

My department will work closely with the FCA to ensure action is taken to tackle these unfair commissions. I would like to see immediate changes to this practice and expect a proposal from BIBA setting out how you will address broker commissions and reform culture and practice within the market ahead of any further regulatory activity.

The FCA has also recommended that you work rapidly on a pooling solution with the ABI and on improving the quality and availability of data in this area of the market. Before the month is over, I would like you to outline a timeline of the action you intend to take and the effect you expect it to have on the issues identified by the FCA.



Rt Hon Simon Clarke MP
Secretary of State for Levelling Up, Housing & Communities

What have we covered?

You should have gained an insight into:

- What is Consumer Duty and core components of this
- Key GI issues
 - Pricing and Product Governance
 - Multi-occupancy insurances



Thank you for listening

Questions please

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