



Department for Levelling Up, Housing & Communities

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



Department for Levelling Up, Housing & Communities

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The Rt Hon Simon Clarke MP
*Secretary of State for Levelling up Housing &
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21 September 2022

Dear Hannah,

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. It is very concerning to see that the premiums paid by leaseholders have more than doubled on average over a 5-year period, and nearly tripled for those living with cladding. The report has identified issues throughout the insurance value chain that have led to inflated premiums, and insurers must accept their responsibility to offer fair value to their end customers. The financial pressure currently placed on leaseholders continues to be unacceptable and I want to ensure that the issues outlined in the report are rectified as a matter of urgency.

The FCA has recommended that the ABI works to develop and implement a risk-pooling solution within the next 2 months. I am seeking assurance from the ABI that you will deliver on the FCA's recommendations. Before the month is over, I would like you to outline:

- The ABI's preferred operating model and scope for the insurance pooling solution and the commission structure of the pool;
- An estimate of the likely impact on premiums and the availability of buildings insurance more broadly.
- A timeline with key actions towards the launch of the solution;

I expect industry to accelerate timescales on this work to reflect the importance of pooling risk in the recommendations. I will arrange a meeting at the end of this month for the ABI to update on the actions above.

The FCA has also recommended that the ABI works with BIBA to develop a common code for the core pieces of risk information to be recorded for multi-occupancy buildings affected by flammable cladding or other material fire safety issues. This is key to support a fair and competitive marketplace. I expect to receive further updates on this work as it progresses.

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