



Department for Levelling Up,
Housing & Communities

Rt Hon Michael Gove MP

*Secretary of State for Levelling up Housing &
Communities*
Minister for Intergovernmental Relations
2 Marsham Street
London
SW1P 4DF

Nikhil Rathi
Chief Executive
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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Per Nikhil

Broker remuneration for buildings insurance in multiple-occupancy residential buildings

Thank you for your report detailing the findings of your investigation of broker commissions for buildings insurance in multiple-occupancy residential buildings. I am grateful to you for agreeing to my request that you investigate further my serious concerns about the role of commissions in significant premium increases. Regrettably, the report compounds those concerns.

I was, in all candour, outraged by your findings. You have found that broker remuneration has risen by nearly 40% in the last three years, with £80m of commissions are going to other parties – and that brokers are unable to provide any evidence to demonstrate that this represents fair value. Despite this, they are happy to load these unwarranted and opaque costs on innocent leaseholders. We must continue to shine a light on these unfair practices, and to improve the operation of this market. Leaseholders are being badly let down. This must not continue.

I will be writing to the British Insurance Brokers' Association to express my consternation that these practices remain, given the detrimental impact on leaseholders and to seek their members' commitment to rectify them with immediate effect.

Your report strengthens my resolve to ban property managing agents, landlords and freeholders taking commissions on buildings insurance and replace with transparent fees. I see that the market has so far disregarded your open letter of January 2022, which made clear that leaseholder needs should already be a consideration. In that light, I welcome your intention, subject to consultation, to formalise the rights of leaseholders in a product's fair value assessment and ask that any resultant rules changes are implemented by the Autumn.

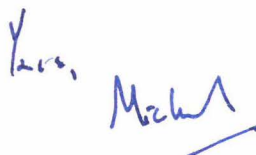
I believe the FCA should take immediate enforcement action against those brokers and managing agents that cannot demonstrate their commissions represent fair value, where they are regulated by the FCA and by RICS. Third-party commissions are inflating the cost of covering insurance placement and handling fees. Managing agents should be completely transparent about where service charges go. By Summer Recess, please send me an update on enforcement action and clarify how managing agents' behaviour will be directly addressed by the FCA under your powers, and those delegated to RICS.

I note from the report the difficulty you had in obtaining and comparing data. This is in itself an indictment of lax industry practices. We must improve that data so that we are to evaluate the effectiveness of the action that industry, regulators and the government take. More than six months have elapsed since your initial report was published, so I would be grateful for your confirmation that brokers and insurance firms are recording data as per the enhanced dataset, as well as what steps you will take if firms are not accurately recording this data.

While I recognise that costs from brokers and commissions represent a significant part of any premium, your report implies that the insurance element of the premium has increased faster than commissions. Home Office data shows reductions in both fire incidence and severity over recent years. In recent years, our built environment has become demonstrably safer than that reflected in historic actuarial data: we have removed dangerous material from countless buildings, fixed internal defects, created new regulators that will ensure buildings are safer and given leaseholders the power to hold relevant parties to account. In this context, I expect insurers' pricing to reflect that reduction in risk. I would welcome a proposal from the FCA on how to guarantee the market is operating effectively in this respect, and to expose any who fail to meet our expectations.

I ask that the FCA produces a further report by no later than the end of October with updates on insurer modelling of the risk, adoption of the ABI/BIBA industry data standards and any changes in commissions and pricing of buildings insurance. We must continue to strain every sinew to protect leaseholders from exploitation. I am grateful for your continuing support in this vital endeavour.

I am copying this letter to the Chief Executive of the CMA and the Economic Secretary to the Treasury.

A handwritten signature in blue ink, appearing to read "Mrs. Michael" with a horizontal line underneath the name.

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