FINANCIAL CONDUCT AUTHORITY

Consultation Paper
CP23/8**

Multi-occupancy building insurance

Feedback to the September 2022 Report and consultation on Handbook changes

April 2023

How to respond

We are asking for comments on this Consultation Paper (CP) by **9 June 2023**.

You can send them to us using the form on our website.

Or in writing to:

Insurance – Market Analysis & Policy
Financial Conduct Authority
12 Endeavour Square London
E20 1JN

Email:
cp23-08@fca.org.uk

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Chapter 1

Summary

Why we are consulting

1.1 In September 2022, we published a report into insurance for multi-occupancy buildings. The report found that insurance costs have increased substantially for leasehold property owners since the Grenfell tragedy in 2017; especially for those in high and mid-rise buildings. While these cost increases are largely driven by properties with flammable cladding or other material fire safety risks, we identified issues within the multi-occupancy buildings insurance market which are leading to poor outcomes for leaseholders who ultimately bear the costs of the insurance. We set out further actions that we would take and a range of recommendations for the insurance industry and the Government to consider.

1.2 We said we would consider changes to our rules where we thought these could address the harms identified. In particular, we committed to consulting on improved information disclosure for leaseholders and on changing the way our rules require firms to consider leaseholders' interests. The report included 8 questions seeking stakeholders' views on these potential rule changes.

1.3 This consultation paper sets out:

- the responses received and our analysis of them
- our proposed rule changes

1.4 This consultation paper is being published alongside an update on broader progress against the recommendations made in the report.

Who this applies to

1.5 This consultation is likely to be of interest to:

- regulated insurers and intermediaries
- industry groups and trade bodies
- unregulated firms involved with multi-occupancy buildings (such as property managing agents)
- freeholder owners who are landlords of multi-occupancy buildings
- leaseholder representative groups and individual leaseholders

What we want to change

1.6 In the report, we found that:

- There is an ongoing lack of transparency and disclosure for leaseholders from both the insurance and property sectors. Without sufficient information, leaseholders may find it difficult to understand and challenge costs passed on to them.
- Leaseholders, and others in similar positions, are not classed as customers within our rules. This means there is no explicit requirement for insurance firms to consider their interests when designing and distributing policies.
- The increases in absolute commission earned by brokers, freeholders and property managing agents may be disproportionate to increases in service costs.

1.7 Since then, we have conducted a review which found further concerns with remuneration practices in the multi-occupancy buildings insurance market. The findings of the review have been published alongside this consultation paper.

1.8 We want to bring about changes to this market so that:

- the interests of leaseholders (and others in similar positions) are properly considered when firms design their products
- prices are fair value to leaseholders as well as freeholders
- remuneration of all parties involved in insurance distribution has a fair relationship to the benefits provided to leaseholders
- leaseholders have sufficient information to challenge poor practices and unfair costs passed on to them

1.9 We are proposing changes to the following areas of the Handbook:

- the Insurance Conduct of Business sourcebook (ICOBS) requirement on acting honestly fairly and professionally in the customer's best interests and to introduce new leaseholder focussed information disclosure obligations
- the Product Intervention and Product Governance sourcebook (PROD) so that leaseholders and others are explicitly taken into account by firms for requirements on product design, approval and distribution and bring certain large risks contracts into scope
- the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) requirements on remuneration practices

1.10 Our proposed rule changes are set out in Chapters 3 and 4.

Feedback to the report

1.11 We received 92 responses to the questions in the report. These came from a wide range of interested parties, with most respondents being individual leaseholders affected by increasing prices. We also held a series of roundtable discussions with both the insurance industry and leaseholder groups. We are pleased that we received such strong engagement.

1.12 Respondents were broadly supportive of the recommendations and proposed remedies we discussed in the report. There was very little opposition to the potential remedies put forward, although some respondents (particularly those from the insurance industry) did point to potential challenges and unintended consequences in some places. These challenges were mainly in areas where potential rules may require firms to engage with each individual leaseholder. The responses have been of great help to us in developing our proposals. The detail of the responses, and our analysis of them, is set out in Chapters 3 and 4.

Next steps

1.13 We are seeking views on our proposals. We ask questions throughout this consultation, which are also collated in Annex 1. Please send us your comments by 9 June 2023. We intend to publish a Policy Statement in Q3 2023 with our response to the consultation feedback and our final rules.

1.14 We propose to provide an implementation time of 3 months from the rules being made before they come into force. The changes we are proposing build on existing requirements. As such, we consider that 3 months is sufficient time for firms to make any required changes to their systems and processes.

Q1: Do you have any comments on our proposed 3-month implementation period?

Chapter 2

The wider context

The harm we are trying to reduce/prevent

2.1 The Grenfell tragedy highlighted a wide range of issues affecting residents of multi-occupancy buildings. Many of these are outside of our remit; for example, because they are driven by building construction issues, or are caused by firms we do not regulate. Responsibility for addressing these rests with other organisations. However, in our report we identified harms caused by the firms we regulate that are resulting in poor outcomes for leaseholders. The proposed in this consultation paper are intended to address those harms:

- **Needs and interests of leaseholders are not considered in product design**. We found that the distribution of insurance for multi-occupancy buildings is complex due to the nature of property ownership in the UK. The freehold property owner is typically the policyholder, and insurers and brokers consider them to be their 'customer'. In most cases, leaseholders simply have the insurance bill passed to them and have no role in policy selection or purchase. We found a lack of demand-side pressure to reduce prices or improve product features for the benefit of leaseholders.
- **Increased commissions are disproportionate to increases in service costs**. Brokers arranging multi-occupancy buildings insurance primarily work on a commission-based remuneration model. The level of commission is high, with typical commissions of 30%-49%, and some up to 62%. We have also seen that remuneration is shared with the freeholder or property managing agent (PMA) in many cases, with 37-42% of commission being paid away. This sharing of remuneration may not ultimately be consistent with the interests of the leaseholder; especially as this remuneration is included within the full amount of the premium paid by leaseholders through service charges. In many cases it is unclear why PMAs or freeholders receive this additional remuneration from the broker (and/or insurer). Many leaseholders have pointed out to us that they are usually unaware of the level or even existence of this remuneration because it is not disclosed to them.
- **Policies selected on the basis of commission rather than product quality.** There is a lack of pressure on freeholders, PMAs and insurance brokers to search for the policy that offers the best value-for-money or to switch to better-value policies which may benefit leaseholders. This is because they can recover costs from leaseholders. We have seen instances of freeholders, property managing agents and insurance brokers having commercial arrangements with particular insurers which benefit them but not leaseholders. For example, captive reinsurance arrangements domiciled outside the UK and outside the scope of our regulation.
- **Lack of information & ability to challenge costs for leaseholders**. Leaseholders do not receive relevant information to enable them to understand the costs being passed to them. There is an ongoing lack of transparency and disclosure from both the insurance and the property sectors. Leaseholders often find it difficult

to get even limited or partial information they are currently entitled to, due to the time & costs involved. Even where they can get information it is often insufficient to enable them to scrutinise the insurance arrangements. This makes it harder for them to challenge unfair costs and may also allow firms to hide poor practices from leaseholders and others.

2.2 All these issues have caused considerable distress for many leaseholders, including on their mental health and wellbeing..

How it links to our objectives

2.3 Our proposals are intended to enhance consumer protections and competition.

Consumer protection

2.4 At present, this market is not working well for leaseholder consumers, and this is leading to poor outcomes. Our proposals are designed to address this. Firms will need to act honestly, fairly and professionally in leaseholders' best interests, ensuring their communications are clear, and that their remuneration practices do not conflict with leaseholders' interests.

Competition

2.5 Although our primary aim is to enhance consumer protection, our disclosure requirements are designed to make it easier for leaseholders to understand and challenge insurance costs. This should result in greater competitive pressure.

Our role and the work of others

2.6 Alongside this consultation we have also published the findings of our review into commission levels in the multi-occupancy buildings sector and an update on the work being done by the insurance industry in response to recommendations made in our report.

2.7 The Department for Levelling-up, Housing and Communities (DLUHC) recently announced their intention to introduce legislation prohibiting managing agents, landlords and freeholders from taking commissions and other payments when they take out buildings insurance, and to improve information disclosure for leaseholders. As we made clear in our report, the multi-occupancy buildings insurance market involves a large number of parties who are not required to be FCA authorised. This means they are outside the scope of our rules. The rules we are proposing are intended to work alongside the planned legislation.

Equality and diversity considerations

2.8 We have considered the equality and diversity issues that may arise from the proposals in this consultation paper.

2.9 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies). But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

2.10 In the meantime, we welcome your input to this consultation on this.

Chapter 3

Disclosure

3.1 In this chapter, we propose additional disclosure rules in ICOBS 6A. The proposals are intended to provide greater transparency for leaseholders.

Improved disclosure for leaseholders

3.2 In our report we identified that:

- There is lack of transparency for leaseholders around the pricing of the policy.
- Leaseholders do not have all the information, including elements such as remuneration which affect the price, to enable them to understand the policy they are paying for.
- There is a lack of ability for leaseholders to challenge costs passed to them, or understand whether they are excessive or result in poor practices, due to this lack of information. This limited ability to challenge means there is little pressure on firms to reduce costs.
- The lack of disclosure also means that firms' poor practices may be concealed.

3.3 We committed to consulting on providing improved information to leaseholders from regulated firms to help leaseholders better understand the costs that make up their premiums and be able to challenge them if they are unfair. In summary, we suggested the disclosure of the following:

- information about the price of the insurance policy and information about other policies which were available to the freeholder but not purchased
- full disclosure of the total remuneration paid to all parties in the distribution chain
- information on potential conflicts of interests, such as tied relationships between brokers and property managers

3.4 The questions we asked in our report were:

Q1: What additional information do you think would most benefit leaseholders?

Q2: Do you have views on how this information should be provided to leaseholders?

Summary of responses

3.5 Most respondents (both industry and leaseholders) were strongly supportive of greater transparency to leaseholders. More specifically:

- **Policy information** – Most of the respondents supported disclosure of a policy summary, pricing information and details of potential conflicts of interests.
- **Remuneration** – A large majority supported disclosure of remuneration paid to parties in the distribution chain, with no significant opposition.
- **Market searches & placement** – Most leaseholders supported disclosure of information on alternative quotes received, but there was opposition to this from industry respondents. They argued it could lead to leaseholders being overloaded with information, which could cause more confusion. There was, however, strong support from many for firms explaining why they have proposed the policy in the interests of both, the freeholder and leaseholders.
- **Claims history & premiums per individual leaseholder** – Many leaseholder respondents supported disclosure of claims made by other leaseholders as this would give greater insight into the reasons for pricing changes. However, most industry responders strongly opposed this, due to the data protection and privacy issues that it would raise. Some leaseholders and PMAs also supported disclosure of information such as breakdown of premium per individual leaseholder, but most industry respondents did not support this, as insurers/ brokers do not have details of each individual resident and getting them would be likely to add significant costs.
- **Conflicts of interests** – Many leaseholder respondents supported requiring intermediaries to disclose of potential conflicts of interests. Of particular concern was the use of captive insurance arrangements. However, industry respondents were more cautious about this. They cited concerns about the complexity of information and whether it would lead to leaseholders being overloaded.

Our response and proposals

3.6 We note the strong support from all the respondents on our commitment to bring in rules for greater transparency for leaseholders. We are proposing enhanced disclosure requirements intended to:

- support leaseholders, so they receive clear information about the insurance in place
- help leaseholders to better understand the costs associated with the insurance and what the premium is made up of
- enable leaseholders to challenge unfair remunerations, insurance placements and conflicts of interests
- increase scrutiny and pressure on firms in the distribution chain to manage conflicts of interests more appropriately

3.7 We are proposing to introduce a new section in ICOBS 6A requiring insurers and intermediaries to produce and provide information in relation to all multi-occupancy buildings insurance policies intended for leaseholders.

The content of the disclosure

3.8 Our rules already require disclosure of important information for the benefit of customers including retail consumers. As leaseholders will typically be akin to retail consumers, the new requirements are similar to our existing rules. However, there are some areas where we are proposing disclosure of additional information.

Summary of the policy

3.9 We propose that firms produce and provide a summary of the features of the policy. This will need to include the main benefits, coverage and exclusions of the policy, its duration, and the insured sum (in total and per building). This can be done through a bespoke new document or by relying on an existing Insurance Product Information Document (IPID) or Policy Summary where these provide the necessary information.

Pricing information

3.10 We propose firms provide clear pricing information for leaseholders to understand how the policy premium is made up. This should include premium at building level and relevant tax, in addition to the information in the existing document being referred.

Remuneration

3.11 We are proposing that authorised insurance intermediaries disclose the total remuneration received for arranging the insurance, including commission paid by insurers. Intermediaries will also be required to disclose remuneration they pay to other parties including unregulated PMA's and freeholders.

3.12 Proactive disclosure of remuneration is not currently required under other parts of our rules for retail insurance products. However, we are proposing to introduce this for the multi-occupancy buildings insurance market now because we consider it will make it easier for leaseholders to identify and challenge poor practices by firms. This will address some of the harms caused to leaseholders:

- As leaseholders are not involved in the selection of the policy, they are unable to shop around if they are unhappy with costs passed on to them.
- The common practice of intermediaries sharing remuneration with freeholders and PMAs incentivises those parties to select the policy which pays them the most.
- Leaseholders are typically obligated to pay insurance costs as part of their lease agreement. This reduces the incentive on freeholders to select a policy in the best interests of leaseholders, because they are able to recover their costs regardless.

3.13 Disclosure of remuneration should make it easier for leaseholders to scrutinise the insurance arrangements and identify whether there is a basis to challenge if the freeholder charges for insurance costs. We also expect this transparency to bring pressure on firms in the distribution chain to manage remuneration practices and conflicts of interests more appropriately.

Potential conflicts of interests

3.14 The existing ICOBS 4 requires intermediaries to disclose information which covers potential conflicts. This includes information about ownership links between the intermediary and any insurers, and also information about the insurers with whom the intermediary may place the policy. We propose that the intermediary would be required to proactively provide this for the benefit of leaseholders too.

Alternative quotes

3.15 Our review found that many intermediaries do not have a defined strategy for 're-broking' policies. Most firms appeared to seek alternative insurer quotes only every three years and, even then, only if certain parameters have been met. Whilst we understand there may be good reasons for this, we are concerned it could lead to arrangements with existing insurers being favoured for reasons which are not consistent with the interests of leaseholders (such as remuneration or captive insurer placement).

3.16 We propose that intermediaries be required to disclose the number of alternative quotes they have obtained (with further details of these to be provided on request) and a brief explanation of why they have proposed or recommended that the policy is in the interests of both the freeholder and leaseholders. Disclosing the number of quotes obtained alongside details of potential conflicts will increase scrutiny and put pressure on firms to demonstrate how they have acted in leaseholders' interests. That may also make it easier for leaseholders to challenge costs.

Who should make the disclosures?

3.17 We propose that the information on summary of cover and pricing be produced by the insurer. The intermediary would be responsible for producing the remuneration disclosure, and all other information.

3.18 As is the case for similar requirements in ICOBS 6, the information will need to be provided to the customer (ie the freeholder) by the intermediary who is in direct contact with them. If there is no intermediary, the insurer will be responsible for providing it directly to the customer. The information would be provided along with a clear message that the freeholder should pass this onwards to leaseholders.

3.19 We are proposing that the information be disclosed promptly after the conclusion of the contract.

Queries from leaseholders

3.20 There may be situations where leaseholders have questions about insurance arrangements, or where the freeholder has failed to pass on the information covered by our rules. Although leaseholders may not be policyholders, we consider it important that insurance firms should respond to these queries in an appropriate way and provide adequate support to the leaseholder who has contacted them. This means that firms should provide the required information if a freeholder has not passed this on already, and should do so without delay. The freeholder's consent to this direct provision of information is not necessary where our rules already provide for this disclosure being intended for leaseholders. We have included this in the proposed rules.

Contracts of large risks

3.21 We propose to apply these requirements to all multi-occupancy insurance contracts, including those which meet the definition of being contracts of large risks. We consider

most freeholders are likely to be akin to retail consumers. Our intention is that all leaseholders are treated equally and fairly, regardless of whether the freeholder would see this being a contract of large risks.

Format of disclosure

3.22 These new disclosure requirements are intended to be consistent with some of our existing ICOBS 6 and ICOBS 4 disclosure rules. We will allow firms to disclose some of this new information to their customers (to be passed on to leaseholders) by relying on existing documents such as an IPID or a policy summary. We propose to allow all firms a discretion over whether to create an entirely new bespoke document only containing all the information to be passed on to the leaseholder, or to rely on their existing disclosure documents where these include the information required. Firms are free to combine information as long as the documents are clear, fair and not misleading. The information that must be provided for leaseholders will be in addition to the existing disclosure obligations they already have in relation to the direct customer they have and the information that they already provide.

3.23 When designing their disclosures, firms should bear in mind that most leaseholders are likely to be retail consumers. Firms should ensure the information is provided in a way which is clear and easy to understand.

Other information suggested by respondents

3.24 We have carefully considered the responses and there are some suggestions that we are not including in the disclosure requirements:

- Claims history – we are not including disclosure of claims made by other leaseholders, as we agree with respondents who pointed to significant issues with privacy and data protection. We are also concerned this disclosure could create conflicts between leaseholders.
- Full information about alternative quotes – we want to ensure leaseholders get sufficient information but are not overloaded with information, as this could risk making it harder for them to engage with the information. We consider disclosing the number of quotes strikes the right balance.
- Breakdown of premium per individual leaseholder – we do not propose this as insurers and intermediaries do not typically have any direct relationship with leaseholders and will not have a basis for accurately attributing a proportion of the premium to each individual residence within a building. Establishing this would lead to significantly increased costs for firms, which would be likely to be passed on to leaseholders.

Q2: Do you agree with our proposal to introduce new disclosure requirements for multi-occupancy buildings insurance policies? If not, please explain why.

Q3: Do you agree with the proposed content of the disclosure? If not, please explain why.

Q4: Do you agree with the proposed format and timing of the disclosures? If not, please explain why.

Q5: Do you agree with the inclusion of contracts of large risks in our proposals? If not, please explain why.

Chapter 4

Product governance and customer's best interests

4.1 In this chapter we propose amendments to PROD, ICOBS and SYSC rules. These proposals are designed to increase firms' focus on policyholders and people in a similar position including leaseholders. The changes will ensure products are consistent with providing fair value to customers taking out the insurance, wider policyholders and others in similar positions to policyholders, including leaseholders. This will give us greater scope to challenge poor firm practices.

Status of leaseholder as customer

4.2 In our report, we noted that our rules apply in a more limited way to leaseholders than they do to freeholders. This is because most leaseholders are not 'customers' or 'policyholders' under our rules as they are neither involved in setting up the policy nor gain rights under the contract (for example, to bring claims). Also, typically they have no client relationship with either the insurer or broker. Instead, the 'customer' under our rules is usually the freeholder. This means, in most cases, authorised firms have focussed narrowly on the interests of the freeholders under our rules, without expressly considering the position of leaseholders even though they pay for the cost of the insurance.

4.3 In our report we identified instances where commission levels appeared to be high, and indicated that products may not be providing fair value to leaseholders. We were particularly concerned about:

- the impact increased commissions would have on product value (for example, whether increase in commissions reflected commensurate increase in costs to serve and benefits provided). This was a particular concern as commission was typically calculated based on a percentage of the premium and so would increase alongside premiums.
- conflict of interest where freeholders and PMAs receive commissions from the insurance policy

4.4 As noted in our report there is a limited extent to which we can change how the multi-occupancy building insurance market works. For example, the fact that most leaseholders do not have a relationship with the insurer or broker. However, in the Dear CEO letter we sent to firms early last year we explained how existing rules would require firms to take account of leaseholders when meeting their obligations. In addition, we also committed to consulting on rule changes to include leaseholders as 'customers' within our rules. In summary, we discussed the following possible changes:

- Making leaseholders 'customers' under PROD, so that insurers and brokers must ensure their products provide fair value to a target market of leaseholders.

- Apply our rules to contracts of large risks, so that all policies of multi-occupancy buildings are captured in the future.
- Make leaseholders 'customers' under our ICOBS rules so that leaseholders are treated the same way as other retail customers. However, we noted the practical difficulties with applying parts of ICOBS to leaseholders.

4.5 We asked respondents to answer the following questions:

> *Q3: Do you have views on how our rules should be amended to include leaseholders as customers?*

> *Q4: Are there any potential unintended consequences we should consider if we include leaseholders as customers within our rules?*

Summary of responses

4.6 Most respondents broadly agreed with our proposal to apply some of our rules for the benefit of leaseholders. But there was significant variation in views on the specifics of which rules should be applied to leaseholders:

- Most respondents supported extending the PROD rules to leaseholders. However, a few respondents queried how potential conflicts of interests between different leaseholders, as well as between leaseholders and freeholders would be managed. Some respondents also cautioned that we would need to be careful to ensure our rules did not extend too far beyond those who are currently classed as customers. For example, it was stated that customers of a shop are indirectly funding the shop's insurance policies through their purchases and could be said to benefit from things like the shop's public liability insurance. They argued that extending the PROD rules to cover these 'customers' would make compliance impossible for firms.
- A small number of respondents raised concerns about increased leaseholder engagement in general, noting that their potential lack of expertise along with the complexities involved in the placement of multi-occupancy building insurance, could lead to increased costs to firms which could lead to them exiting.
- A few respondents alluded to the possibility of extending the conflicts requirements under our SYSC rules to cover leaseholders although they did not elaborate on this.

Our review of intermediary commission practices

4.7 Since our report was published, we have conducted a review of commission practices for intermediaries in this market. We have found evidence of practices which we consider are detrimentally impacting the value of products to leaseholders:

- Whilst rates vary, we found a majority of intermediaries are receiving commission of 30%-49% of premium. We saw evidence of this being in addition to other fees

paid to intermediaries, such as work transfer fees. We saw little evidence to justify this type of double payment.
- We found significant failures in the ability of firms to show their remuneration practices are providing fair value. In particular, where reliable data was available, we found that an analysis of costs and expenses showed that firms' costs had not increased at the same rate as remuneration.
- The high rates may be partially explained by the amounts of commission being paid across to other parties. We saw little evidence to justify this.
- Although some firms have self-imposed commission caps, we found evidence of these not being adhered to.

Our response and proposals

4.8 We welcome the general support from respondents on applying our rules for the benefit of leaseholders. We have also carefully considered the challenges some respondents raised in relation to some of the rule changes we discussed in our report.

4.9 We are proposing amendments to our rules which are intended to:

- Expressly require firms to focus on the interests of all customers that receive a benefit from the insurance and have an obligation to pay towards the insurance costs, including leaseholders. For example, firms will need to:
  - consider all customers, including leaseholders, as a part of the target customer group when designing and distributing products
  - act in the best interests of all relevant customers when placing insurance
- ensure products provide better value to all relevant customers including leaseholders.
- reduce prices by tackling poor remuneration practices; in particular, situations where remuneration is excessive relative to the costs firms incur and the benefits they provide
- give us greater scope to challenge poor firm practices around remuneration

Changes to PROD

4.10 Our PROD rules include requirements on operating an appropriate product approval process, defining the target market whose needs the product will meet, selecting appropriate distribution channels, and ensuring products provide fair value to customers. We propose to expressly include leaseholders as 'customers' for the purposes of the PROD 4 rules. This will mean:

- Insurers and brokers will specifically need to show how they have considered the position of leaseholders as a relevant part of the target market when designing, pricing and distributing their products.
- A key requirement of the PROD rules is ensuring the product provides fair value and the effect of our proposals mean that in future firms will need to demonstrate the product is consistent with providing fair value to leaseholders as well as any other customers. This includes considering all elements which contribute to the

total price and ensuring there is a fair relationship between this and the quality of the product(s) and/or services provided including the benefits provided.

4.11 Where firms are receiving percentage-based commissions, the rules are likely to mean they will need to reduce the percentage rates unless there has been a corresponding increase in benefits provided to customers. Increased total commission which results purely from the risk premium increasing would be likely to breach the rules, because the increase would not reflect additional benefits provided to leaseholders.

4.12 We are aware that firms operating in this market routinely share remuneration with others. This could be firms involved in the distribution chain (such as PMAs) but could also include rebates to freeholders who are customers. As these practices impact the price which customers (including leaseholders) pay, firms will need to ensure they are providing fair value. This means there must be a fair and reasonable relationship between the amount paid and the benefits provided to customers. Where such payments do not have a fair relationship to benefits provided to leaseholders, they will need to either be reduced or cease entirely.

4.13 We do not consider this change will create a conflict of interest between individual leaseholders. This is because PROD does not require firms to assess the needs of each individual leaseholder. Also, it will not override firms' obligations to freehold customers – rather it will require them to consider the interests of freeholders and leaseholders equally. In general, we expect the interests of freeholders and leaseholders to be aligned as both have a clear interest in a product providing sufficient coverage at a fair price.

4.14 In our review of broker remuneration, we identified significant shortcomings in the work done by firms to comply with the PROD rules. Firms must address these shortcomings as well as ensuring they are compliant with any changes we make following this consultation.

Q6: Do you agree with our proposed changes to how the PROD rules apply for the protection of leaseholders? If not, please explain why

4.15 Our main focus is leaseholders in multi-occupancy buildings. But we are proposing to apply the changes to any other situations where a person:

- has a contractual or statutory obligation to pay for a part or all of the insurance premium
- has an interest in or benefits from the subject matter of the insurance

4.16 We are referring to these people as policy stakeholders.

4.17 Our intention in making this change is that where a policy covers a risk in which a person has a clear interest, and where that person is explicitly paying for the insurance (even if through another party, such as a service charge), firms should consider that person's interests as they would any other policyholder. In proposing this change we are mindful of the feedback received to the report that the rules should not require firms to consider the interests of people who are too remote from the insurance policy. For example, a customer purchasing groceries from a supermarket is, through their purchase, indirectly

funding the shop's public liability insurance. We would not expect customers in this situation to come within our new category of policy stakeholder because they have no interest in the subject matter of the insurance and they are not specifically paying a fee to meet the insurance premium. This contrasts with residential leaseholders who clearly have an interest in the subject matter of the buildings insurance, and who are usually obliged by the lease to pay a fee towards meeting the insurance premium. We welcome views from respondents on this.

4.18 Currently PROD 4 refers to those customers who are involved in arranging the insurance. We are proposing to change this to include the need for firms to expressly consider all policyholders or prospective policyholders (in addition to the changes outlined above in relation to leaseholder and others) in their product governance arrangements. For example, firms would need to expressly show how they have considered not only the person making the arrangements to take out the insurance but also how the product is consistent with any people who may acquire rights under that policy. We would expect firms to have already been undertaking this assessment when ensuring a group policy, for example, has been designed properly and is operating as expected.

4.19 PROD 4 does not apply to products that are used to effect exclusively contracts of large risks. Some products may be manufactured solely for such contracts, where the only customers to whom they are distributed meet the definition of being a 'large risks' policyholder. However, we are concerned that some of these products may have policy stakeholders who are not large risks, and who may be retail consumers. For that reason, we are proposing to amend the scope of the exclusion, so it only applies to those products that are used exclusively to effect contracts where there are only commercial policyholders meeting the relevant definitions in the contract of large risk definition and there are no policy stakeholders that are retail consumers. Any other products used for contracts of large risks would be expressly captured by PROD 4 in future.

4.20 We recently changed the way some of our PROD rules apply to products where the customer is resident overseas. However, we are proposing not to apply those changes to multi-occupancy buildings products, regardless of where the freeholder is resident. Where such products cover buildings in the UK, we consider it is appropriate that leaseholders in those buildings should be protected by all the PROD rules. We may consider extending this approach to other products with UK resident policy stakeholders in the future and would welcome feedback on this point.

Q7: Do you agree with our proposed extension of the PROD rules to cover all policyholders and policy stakeholders? If not, please explain why.

4.21 As set out in chapter 1, we are proposing a 3-month implementation time between the rules being made and them coming into force. We are not proposing that product manufacturers should be specifically required to re-approve all relevant products including their existing multi-occupancy insurance products. However, PROD requires both manufacturers and distributors to have processes in place for the ongoing monitoring and review of all of their products, with reviews conducted on a timescale determined relative to the product's risk of harm. Given the issues we have found in this market, we expect that most products will be likely to have a higher level of harm, and so

will require more frequent review to identify if there is the need to take any action. Whilst we are not requiring firms to reapprove their products, we expect firms, as part of their review processes, to identify whether the product is consistent with their obligations and to take appropriate actions to rectify those issues and prevent ongoing harm.

4.22 We also remind firms of the expectations under our existing PROD rules, which we set out in our Dear CEO letters to manufacturers and distributors.

Changes to ICOBS

4.23 In addition to changes to PROD, we also propose applying the ICOBS customer's best interests rule and related rules for the benefit of all policyholders and policy stakeholders. This will mean firms will need to act honestly, fairly and professionally in leaseholders' best interests, including ensuring their communications are clear, fair and not misleading.

Q8: Do you agree with our proposed changes to the ICOBS customer's best interests rule, and related rules? If not, please explain why.

Changes to SYSC

4.24 Currently, SYSC 19F.2 requires firms to ensure their remuneration practices do not conflict with their duty to comply with the ICOBS customer's best interest rule. We propose to include leaseholders and other policy stakeholders as 'customers' under this rule too. This will mean:

- Firms will be required to ensure their remuneration practices do not conflict with their obligation to act in the leaseholders' best interests (as well as the freeholders).
- If a firm selects a policy based on the commission it receives where this is not consistent with its obligations to act honestly, fairly and professionally in best interests of its customer including the leaseholder, it would be in breach of these rules.

4.25 Importantly we propose new guidance to insurance distributors when assessing compliance with SYSC 19F.2.2R:

- Firms must consider all the remuneration it receives, whether or not it intends to retain that remuneration or make payments out of that amount to someone else.
- Firms must consider whether the gross amount of any sum it receives by way of remuneration, whether in the form of commission or of any other type, is consistent with ICOBS 2.5.-1R rather than the net amount that the firm intends to retain.
- A firm will be in breach of SYSC 19F.2.2R where it has arrangements to provide incentives, including partial premium refunds or commission like payments, to third parties (including the customer taking out the policy) which may encourage the recipient of those incentives to use the services of the firm. In these circumstances, firms will be regarded as receiving a financial or non-financial benefit or other incentive in respect of the insurance distribution activities to which it relates and so be remuneration to which SYSC 19F.2.2R(1) will apply.

Q9: Do you agree with our proposed changes to the SYSC remuneration rules? If not, please explain why.

Chapter 5

Other remedies considered in our report

5.1 In this chapter, we explain the remaining feedback to our report. We also explain why we are not proposing rules to:

- ban or limit certain remuneration practices, including capping commission levels
- extend all ICOBS rules to leaseholders
- include leaseholders as a category of eligible complainants under the Dispute Resolution: Complaints sourcebook (DISP)

Banning or limiting certain remuneration practices

5.2 In our report we identified instances where commission levels appeared to be high. Our subsequent review has confirmed these findings and identified practices which appear to be causing harm to leaseholders.

5.3 However, our report also noted practical concerns with making rules to prohibit/limit remunerations including commissions. For example, unauthorised parties such as freeholders and PMAs may carry out important work as part of arranging insurance and, in their absence, brokers may have to do more work and retain more commission for this. Also, we cannot prevent unauthorised parties from taking remuneration from leaseholders in other ways such as increased service charges.

5.4 Given these challenges, we did not commit to introducing rules to limit remuneration although we invited stakeholders' views on this. We noted that a legislative solution led by the Government might be an alternative. We also committed to review firms with the highest commission rates. We asked stakeholders the following questions:

Q5: Do you have any views on whether we should prohibit authorised firms from paying remuneration to freeholders and unauthorised property managing agents?

Q6: Do you have other views on potential remedies concerning remuneration set out in the report?

Summary of responses

5.5 We had a range of responses to the questions in the report. Most leaseholder respondents supported banning remuneration paid to unauthorised parties, with many expressing this in strong terms.

5.6 The responses from industry were more mixed. Some supported a prohibition due to the risks of such payments not providing fair value, causing conflict of interest and potential

competition issues. Others opposed further intervention, on the basis that existing fair value rules or enhanced disclosure rules were sufficient to address the harms identified.

5.7 Some respondents pointed out that freeholders and PMAs can undertake valuable work and are entitled to be paid for it. They pointed to potential adverse consequences if these parties are no longer willing to carry out that work. For example, the work will have to be undertaken by someone else such as surveyors which could potentially cost more for leaseholders or insurers may not receive all/correct information they need about the property which could detrimentally affect the level of cover and premium.

5.8 Some respondents said that if prohibitions were to apply to brokers, this could lead to them exiting the multi-occupancy buildings market.

5.9 Many pointed out that workloads in arranging insurance have increased substantially as the market has contracted and this is particularly so for properties that pose a fire risk and that brokers are entitled to be paid for their work.

Our response

We appreciate the detailed responses from respondents in this area. We particularly understand leaseholders' strong views concerning commission received by unauthorised parties such as freeholders and PMAs as this feeds directly into the prices that leaseholders pay. We also understand the broader concerns expressed about remuneration practices and levels.

We want to ensure good practices in this area. We believe our existing and proposed new rules within PROD, ICOBS and SYSC will achieve this by challenging remuneration practices that detrimentally affect product value:

- Proposed new rule on remuneration disclosure: This is intended to enable leaseholders to challenge unreasonable/harmful renumeration and identify/challenge potential conflicts of interests arising from remunerations paid by authorised firms to brokers, freeholders/PMAs. It also supports some respondents' views that enhanced disclosure would positively influence commission levels.
- Proposal to include leaseholders as 'customers' under ICOBS' Customer's best interest and SYSC 19F.2: This will ensure firms act in the leaseholder's (and other policy stakeholders') best interests and do not have remuneration practices that conflicts with this duty. In particular, the rules prohibit firms from recommending or proposing a particular policy based on remuneration rather than on the freeholder and leaseholders' interests. Firms with arrangements to provide incentives, including partial premium refunds or commission like payments, to third parties (including the customer taking out the policy) which may encourage the recipient of those incentives to use the services of the firm, will be in breach of SYSC 19F.2.2R rules.
- Proposal to include leaseholders as 'customers' under PROD: This will ensure remuneration of parties in the distribution chain does not have a detrimental impact on the fair value the product presents

to leaseholders. This will apply both to remuneration received by authorised firms and to that paid to unauthorised parties.

Given this, we do not consider additional rules to limit remuneration to be necessary at this stage. As we noted in our report, there are significant complications to introducing bans or caps on remuneration levels. We do not consider these can be fully addressed as this stage:

- As we do not regulate freeholders and most property managers, we cannot prevent them from taking remuneration from leaseholders in other ways which are outside the scope of our rules. This would significantly limit the effectiveness of any rules we introduced.
- We are aware that some freeholders and PMAs undertake valuable work in arranging insurance. Such work will continue to be necessary. Rules limiting remuneration may ultimately increase the costs to leaseholders as this work would need to be done by others.
- There is potential for a negative impact on prices (for example, due to different tax treatment) if we intervene incorrectly.

We understand the Government intends to take action to ban PMAs and freeholders from taking commissions when they take out building insurance. This is likely to affect both authorised and unauthorised firms. We will consider whether further changes are required to our rules in the light of Government interventions.

Other remedies

5.10 In our report we discussed other potential remedies which we did not propose to take forwards. We asked:

Q7: Do you agree with the potential remedies we are not proposing to take forward?

Q8: Are there any other potential remedies we should consider?

Applying all the ICOBS rules

5.11 In our report we discussed making leaseholders ‘customers’ within the meaning of all ICOBS rules (for example, demands and needs requirements and other the sales standards.

Summary of responses

5.12 While there was strong support from most leaseholder respondents to extending all ICOBS rules to leaseholders, some (primarily from industry) opposed it. They contended that it would be practically impossible for firms to apply certain parts of ICOBS (for example, demands and needs requirements) to potentially thousands of leaseholders who could be under a single policy, and attempting to do so would lead to substantial costs being passed on to leaseholders. Respondents also pointed to potential conflicts between the needs and interests of individual leaseholders (who may change mid-term) making it impossible to place the insurance.

Our response

We have considered the following practical challenges respondents highlighted in response to our suggestions in our report. Most ICOBS rules are concerned with the relationship between insurance firms and customers in regard to an individual policy of insurance (for example, the way in which a policy is sold). The current structure of a single insurance policy providing cover that benefits all leaseholders in a property makes it virtually impossible for firms to comply with many of the ICOBS requirements:

- There could be thousands of leaseholders covered under a single policy, none of whom have any direct relationship between the insurer or intermediary. This lack of a relationship would make it impractical for firms to comply with most of ICOBS. For example, it would not be feasible for firms to comply with the demands and needs rules and other sales standards for advised and non-advised sales, for thousands of leaseholders under a policy.
- Situations where most leaseholders are happy with a policy but a small minority are not would in effect create a right of veto, which would be unworkable.
- Leaseholders frequently change during the term of the policy and assessing needs for a policy mid-term would be impractical.

We believe these practical challenges will make it impossible for firms to adequately comply with the rules. It could also create very high costs to firms which would be disproportionate to the harm, and which ultimately will have to be borne by the leaseholders. For that reason we are not extending other parts of ICOBS to leaseholders. However, the combined effects of the proposals on disclosure and on the status of leaseholders means that much of the ICOBS requirements will apply for the benefit of leaseholders.

Making leaseholders eligible complainants under DISP

5.13 In our report we said we did not propose changes to DISP (Dispute Resolution: Complaints) rules to expressly include leaseholders as a category of eligible

complainants because this was unlikely to affect the insurance premiums which reflects the insurance risk.

Summary of responses

5.14 There was some strong support from a small number of leaseholder respondents to either allowing leaseholders to access the Financial Ombudsman Service (the ombudsman service), or to create a similar free independent alternative dispute resolution service. Industry respondents generally agreed with our position set out in our report.

Our response

We note leaseholders' views about the need for a free alternative dispute resolution service. But it is not within our remit to create such a service.

We are not making changes to include leaseholders as a category of eligible complainants for the following reasons:

- We do not think this would be likely to impact insurance premiums which is ultimately related to the approach taken by the freeholder in selecting the policy and charging that cost to freeholders. It would also be unlikely to impact the insurer's risk pricing approach.
- As the ombudsman service can only consider complaints against regulated financial business, including leaseholders within DISP will not enable them to challenge insurance related decisions made by freeholders or property managing agents.

There may be situations in which leaseholders would already be classed as eligible complaints, and leaseholders may wish to explore this if they have complaints about insurers or brokers.

Other remedies suggested by respondents

5.15 A few respondents also suggested that we make changes to the conflicts of interests requirements under SYSC, but they did not further elaborate on this point.

Our response

As set out in the previous chapter, we are proposing that firms disclose potential conflicts of interests to customers under ICOBS rule changes. We are also amending the remuneration rules in SYSC so they protect leaseholders. We are not making further changes to the conflicts of interest requirements under SYSC.

Annex 1

Cost benefit analysis

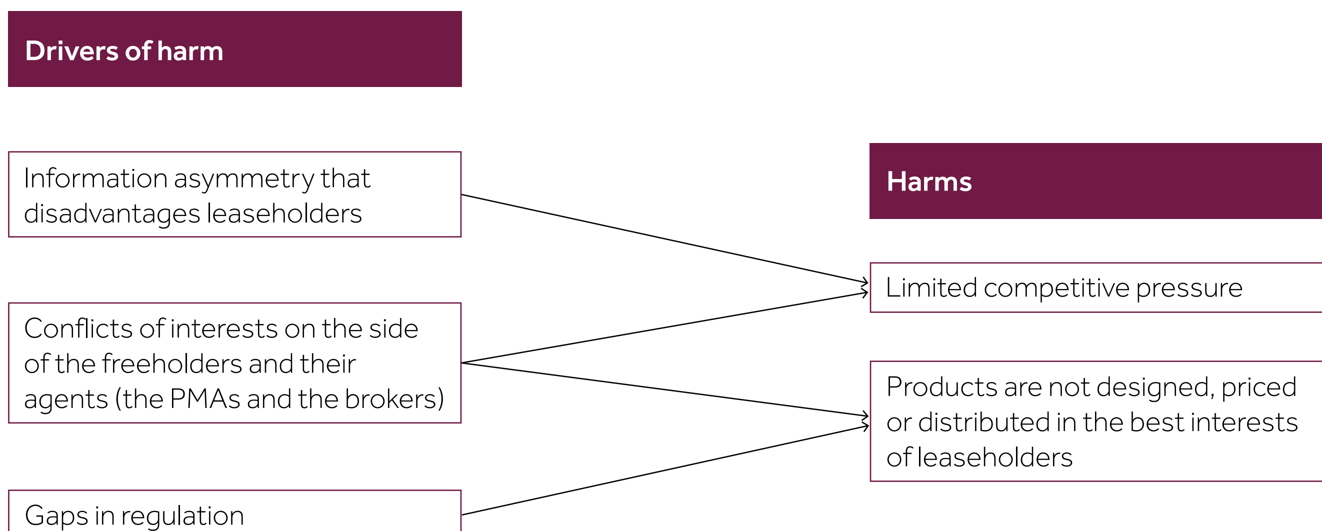
1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative assessment of the outcomes we expect to see. We have also undertaken a breakeven analysis to determine the level of benefits required in monetary terms for the proposed interventions to break even against the estimated costs.

Problem and rationale for intervention

3. The following diagram outlines the drivers of harm that afflict the multi-occupancy buildings insurance market which our rules aim to address, and the corresponding harms that these drivers lead to.

Figure 1: Harms and drivers



Drivers of harm

4. Harms in this market are being driven by several factors. Our rules aim to address the following three:

- There is an **information asymmetry** as leaseholders lack information on how prices are determined, what other products are available in the market and how particular policies are selected. Leaseholders also often lack information on the way different parties are remunerated, which may give rise to conflicts of interest (discussed in more detail below). This prevents them from influencing policy selection and the challenging costs passed on to them. These asymmetries exist both when the policy is selected, and also when the policy is in place and the costs are then passed on to leaseholders. The effects of challenging the costs are likely to be greater where leaseholders are able to coordinate their actions. This is made more difficult by the lack of appropriate information.
- There are **conflicts of interests** on the side of both the purchasers of insurance (the freeholders) and their agents (the PMAs and the brokers), incentivising them to opt for products that may not be in the best interest of the leaseholders. This includes conflicts caused by
  - freeholders, PMAs and brokers being responsible for the choice of insurance policy, while not bearing the policy's cost; and
  - remuneration structures which may be incentivising the freeholders, the PMAs and the brokers to opt for policies that benefit them rather than the leaseholders.
- There are **gaps in regulation**, due to the existing PROD rules not requiring insurers and brokers to consider the needs and interests of leaseholders. The other harms described above mean the market is unlikely to correct for this gap in regulation, as there is little incentive on firms to proactively consider the needs and interests of leaseholders.

The harms

5. These drivers, alone or together with other market features that our remedies cannot influence, lead to the following 2 harms. We discuss the market features that lead to harm which we cannot change in paragraphs 19-23:

Limited competitive pressure

6. Leaseholders are typically not involved in selecting the policy and giving them this right is outside the FCA's remit. Their primary means of influencing policy selection is indirectly through the potential to challenge the costs which are passed on to them by their freeholder once the policy has been purchased. As a result of the information asymmetry and the conflicts of interest present, there is limited pressure on firms to compete based on price or value to leaseholders.

- Without appropriate information, leaseholders are limited in their ability to challenge costs passed on to them. This makes it less likely that the potential for future challenge will influence the initial policy selection.

- The fact that intermediaries frequently share significant amounts of their remuneration with freeholders and PMAs can distort competition and lead to policies selected based on the highest payment rather than on product quality or price.

7. This could be leading to prices which may be too high relative to the benefits which are provided to the leaseholders. We see this in remuneration levels which have increased disproportionately to increases in service costs. In the report of September 2022, we found that mean absolute commission for buildings with flammable cladding more than tripled, from £1,300 in 2016 to £4,690 in 2021 (261% increase). Both of these result in prices which may be too high relative to the benefits which are provided to leaseholders.

8. Leaseholders pay for the policy and have a clear interest in protecting the property it covers. In that sense, they are similar to other residential property owners. The lack of competitive pressure is anomalous because other residential property owners are able to shop around, and firms are incentivised to compete on price and quality. Products are not designed, priced or distributed in the best interests of leaseholders

Products are not designed, price or distributed in the best interests of leaseholders

9. Other than where leaseholders have a share of the freehold, or there is a right to manage situation in place, leaseholders typically have no connection with the building's insurance policy (ie they are not policyholders or beneficiaries). Instead, the leaseholder's relationship is with the freeholder, who is usually the only policyholder. Similarly, the insurers' and brokers' relationships are also with the freeholder, who is their customer. This means that obligations owed by authorised firms under our rules only explicitly operate to protect the freeholder and not the leaseholders. In particular, firms are required to ensure the price provides fair value to freeholders, but do not need to explicitly ensure this for leaseholders.

10. Freeholders and their agents are routinely remunerated by authorised firms distributing insurance. Whilst this may reflect work done to place the insurance, it creates a mismatch between the interests of the freeholder and leaseholders, because freeholders (and their agent) are incentivised to select the policy which provides them with the highest remuneration. This is exacerbated by the right to recover insurance costs which most freeholders have under the lease, as the right of recovery reduces their incentive to select the policy which offers the best value to leaseholders.

11. Subsequent to the report, we have conducted a detailed review into remuneration practices and the impacts they have on prices. This review identified further concerns about whether remuneration and practices in the distribution of multi-occupancy buildings insurance are providing fair value. The findings of the review have been published alongside this consultation paper.

12. Firms are not explicitly required to consider the interests of leaseholders when they design, price and distribute their products. Further, as noted above, leaseholders have little ability to influence policy selection or pricing. There is little incentive for firms to provide policies which best meet the needs of leaseholders and provide them with fair value. As such, we are concerned that policies may be selected based on commission

or other features beneficial to firms involved in distribution, rather than on the benefits they can provide to leaseholders.

Our proposed interventions

13. We are proposing two interventions which are intended to address the harms identified. Without these interventions, the harms we have identified are likely to persist as there are no incentives on market participants to address them.

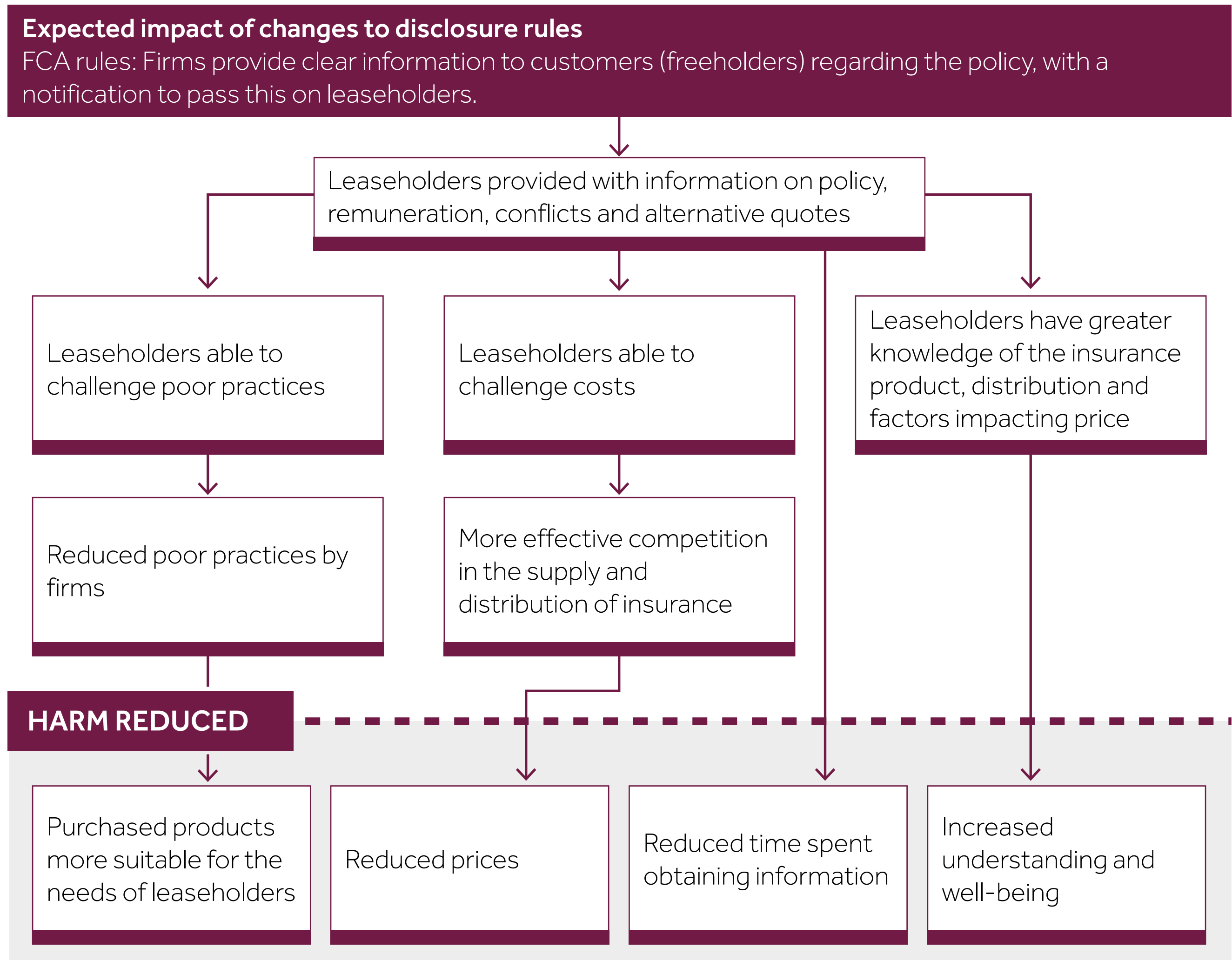
Enhanced disclosure

14. We are proposing new disclosure requirements which will apply to all multi-occupancy buildings insurance policies. This will include information about the policy, potential conflicts of interests, remuneration of brokers, and the number of alternative quotes obtained.

15. These proposals will address the harms identified in the following ways:

- By improving the information provided to after the selection of a policy (including requiring it to be provided directly to leaseholders on request), the information asymmetries will be reduced. The information which we are proposing to be disclosed is intended to make it easier for leaseholders to understand whether the policy meets their needs, and to compare it to other products.
- Disclosure of remuneration and the number of alternative quotes obtained will assist leaseholders in identifying conflicts of interests and poor practices by firms involved in the insurance distribution. This will make it easier to challenge costs passed on to them.
- Having to disclose remuneration, potential conflicts of interests and the number of alternative quotes will put pressure on firms to change their practices (for example, by reducing commission or giving greater consideration to alternative policies available).
- Enhanced, standardised disclosure should make it easier for leaseholders to coordinate their actions in challenging costs, which is likely to give firms a stronger incentive to change their practices.
- The proactive disclosure of information will save time leaseholders currently spend trying to obtain it. We also expect it to lead to improved well-being as we understand that leaseholders often benefit from having a better understanding of the insurance policy and the drivers of prices, even if these drivers are things beyond their influence.

Figure 2: Expected impact of our proposed enhanced disclosure rules



Product governance and remuneration

16. We are proposing to amend the application of our PROD rules so that insurers and distributors are required to consider the needs and interests of leaseholders. This will impact product design, pricing and distribution arrangements (including remuneration structures). We are also proposing to extend this to other types of policyholders (such as group policyholders) and to other consumers who are both paying for and benefiting from an insurance policy purchased by someone else (see Fig 2).

17. The existing SYSC 19F rules prohibit remuneration practices which conflict with the customer's best interests; particularly those which could incentivise a firm to propose a particular policy where another policy would better meet the customer's needs. We are proposing to amend this to include the best interests and needs of leaseholders.

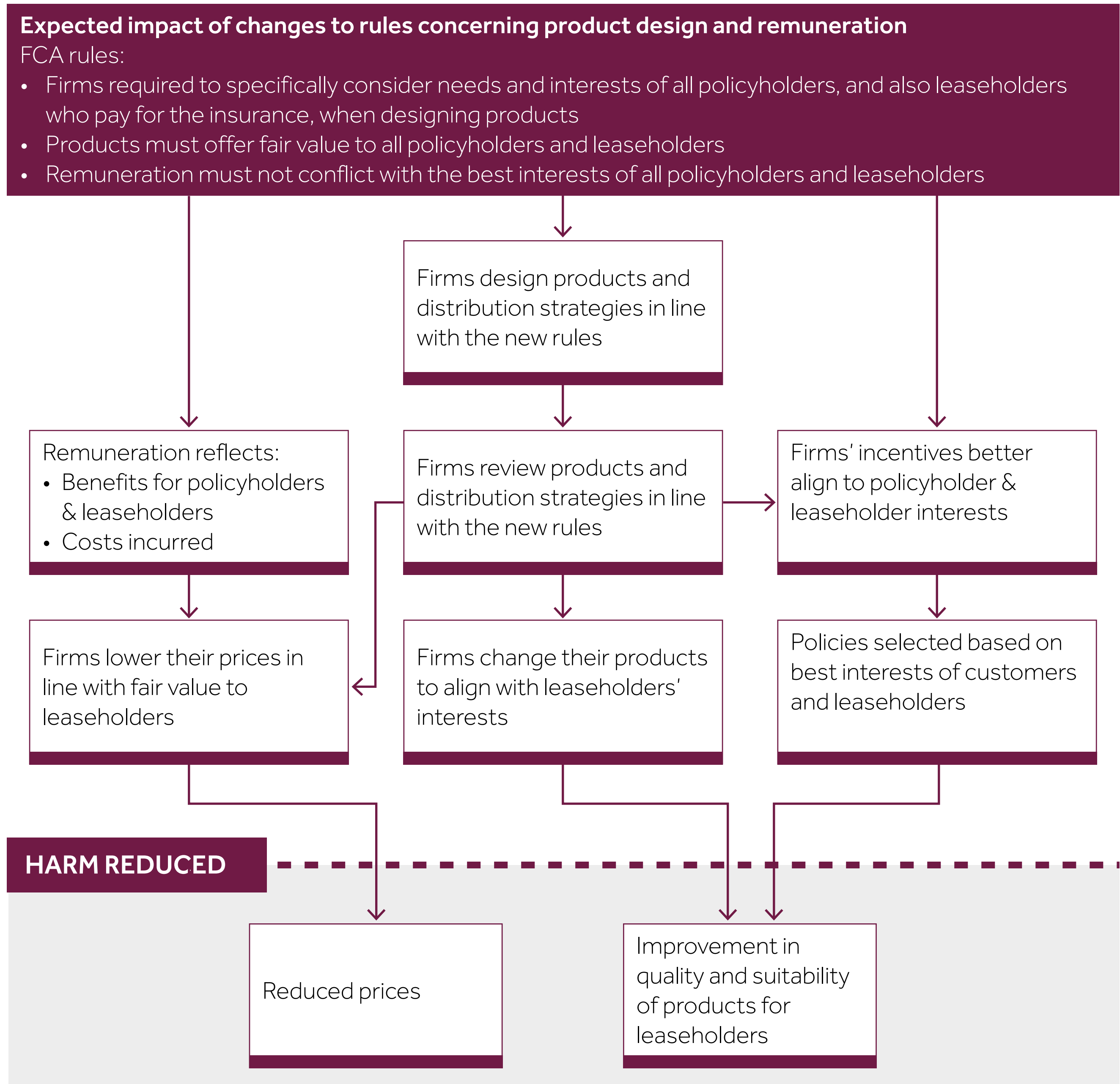
18. These proposals will address the harms identified in the following ways:

- The PROD rules require firms to design products which meet the needs and interests of the intended customers and provide fair value. By including leaseholders within this, there will be an explicit obligation on insurers and

brokers to ensure products provide fair value to leaseholders. This would mean that firms would have to demonstrate and have clear records to show how their multi-occupancy buildings insurance products are ensuring fair value expressly to leaseholders.

- A key aspect of providing fair value is that prices have a reasonable relationship to the benefits provided and the costs firms incur. Practices such as commission values increasing as premiums increase, without a corresponding increase in cost to firms or benefits to leaseholders, will be prohibited. We expect this to lead to a reduction in total commission and price.
- Amending the SYSC 19F rules will prohibit intermediaries from proposing policies which are inconsistent with leaseholders' interests based on remuneration. We expect this to reduce practices where firms proposed policies based on remuneration rather than the best interests of leaseholders.

Figure 3: Expected impact of our proposed product governance and remuneration rules



* Although the focus is on leaseholders, the proposed changes will also benefit policyholders who do not make the arrangements preparatory to other contracts of insurance (such as group policyholders)

Limits on the impact of our interventions

19. Whilst we expect our interventions will reduce some of the harm to leaseholders, this is likely to be limited by market features which we cannot change. Responsibility for selecting and purchasing the insurance will continue to sit with the freeholder in most cases, and our rules cannot prevent them disregarding the interests of their leaseholders when they do this. Our rules will not give leaseholders a role in selecting the policy. Instead, we are addressing this by placing greater responsibilities onto insurers and intermediaries to ensure that products meet the needs of leaseholders, and to

stop remuneration practices which could lead to conflicts between the interests of leaseholders and freeholders.

20. Although the proposed disclosure requirements will not allow leaseholders to directly influence policy selection, they will highlight poor practices and make it easier for leaseholders to challenge them. The impact these requirements has will depend on the extent of leaseholders' willingness and ability to challenge those practices. There may be greater impact where leaseholders coordinate and bring collective pressure onto firms.

21. We recognise there is a risk that freeholders will not follow the instruction to pass information on to leaseholders. We are addressing this by including a requirement that the information be provided directly to leaseholders on request, but we recognise this will not guarantee leaseholders always receive the information they should.

22. As we noted above, DLUHC recently announced their intention to introduce legislation in this area. This will address some of the harms caused by market structures and participants outside of our remit. Our proposed rules are intended to operate alongside the legislation.

23. As we said in the report, we consider the most effective way to reduce prices for leaseholders is the creation of a cross-industry risk pooling arrangement where the risk of covering certain higher-risk buildings can be shared across multiple insurers. Establishing such an arrangement is outside of our remit.

Our analytical approach

24. This CBA looks at the following elements to understand the potential impact of our proposed changes:

- The likely costs to firms involved in the multi-occupancy buildings insurance market.
- The likely costs and benefits to consumers impacted.

25. We have produced the analysis based on evidence from the following sources:

- The data and insights gathered in our report.
- The responses received to our report.
- Views and insight gathered as part of our engagement with stakeholders in October and November 2022.
- The costs estimated for similar policy interventions; in particular, the cost estimates for changes to our PROD rules in CP20/19 (General Insurance Pricing Practices).
- Our experience and wider knowledge of the costs associated with regulation, including using our Standardised Cost Model.

Numbers of firms and consumers affected

26. DLUHC estimates there are 90,500 residential multi-occupancy buildings in England which are at least 11 meters high. The Scottish Government estimates there are 774 buildings in Scotland which are at least 18 meters high. We do not have comparable figures for Wales or Northern Ireland. There is no available data on the number of individual residences within those buildings, but this is likely to range considerably from less than 10 to more than 100 per building. For that reason, we cannot accurately estimate the number of leaseholders impacted by the issues in this sector, but it is likely to be substantial.

27. Although there is no comprehensive register of every authorised firm involved in the multi-occupancy buildings insurance market, the data gathered for the report gave us a good basis for estimating this. In the report we identified 13 insurers with non-trivial market shares. We understand they cover approximately 70% of the market. Based on that, we have assumed the proposed changes will have a more than minimal impact on **19 insurers**. A similar approach would suggest the rules would impact 18 intermediaries. However, as our data on **intermediaries** was less complete, we have applied a more conservative assumption that all **26** firms in our survey are likely to be more than minimally impacted. We do not have sufficient data on which to categorise them by size. Where relevant, we have based our estimates on previous estimates and standard costs for medium and large firms.

Baseline and key assumptions

28. In order to conduct our analysis, we have made a number of assumptions about current practices within authorised firms.

29. As all insurers and intermediaries currently operating in this market are subject to our regulation, we have assumed they already have in place the necessary systems, controls and processes to comply with our rules. In particular, we have assumed that:

- All insurers, and any intermediaries who would be classed as manufacturers under our PROD rules, have product approval and review process in place. These are already used in relation to all their applicable products.
- All intermediaries have product distribution and review processes in place, which are used in relation to all applicable products they distribute.
- Both insurers and intermediaries are providing disclosure of information required by ICOBS 4 and ICOBS 6 to the customers of their multi-occupancy buildings insurance policies.
- Intermediaries are already required to provide full remuneration disclosure on request. We have assumed, therefore, that intermediaries have all relevant information readily available for disclosure.
- The number of insurers and intermediaries active in this market will not decrease as a result of our proposed intervention (ie no firms will exit the market).

30. We have assumed that the mechanism for leaseholders to challenge services charges remains bringing a claim to the relevant tribunal.

31. We assume that our enhanced disclosure requirements will address the issue of information asymmetry, either through the freeholders voluntarily following the instruction to pass all necessary information to leaseholders, or through leaseholders feeling empowered to request all necessary information directly from firms, or through future government legislation that complements our enhanced disclosure requirements.

32. The overall costs we have calculated are based on the impact on firms in the multi-occupancy buildings insurance market, as this is where we anticipate the largest impact. Where there may be costs to firms in other parts of the insurance sector, these are discussed separately.

33. The costs we estimate are only those for authorised firms. There are other organisations involved in arranging multi-occupancy building insurance who are outside of our regulatory perimeter, either because they are not conducting regulated activities or because they are permitted to do so without requiring authorisation. Whilst our rules will not lead to these organisation incurring costs directly, there may be indirect impacts on their business. For example:

- The disclosure requirements may lead to an increase in queries from leaseholders about the costs passed on to them, which could create additional administration costs. We expect these to be made mostly to PMAs and freeholders as they typically have a relationship with the leaseholders.
- PMAs and freeholders who currently receive remuneration from insurers or brokers may see a reduction in the amounts they are paid.

34. In this CBA:

- Unless stated otherwise, all references to 'average' are to the mean average.
- All cost estimates are in nominal terms for the current year
- We assume that all firms fully comply with the rules we introduce
- We assume that freeholders follow the instruction to pass information on to leaseholders

35. To assess the costs and benefits, we have compared the expected position of market participants under the proposed rules against the rules that apply currently. We are specifically proposing changes to the following features of the currently applying rules. That is:

- The information leaseholders receive about the insurance is only that required by the Landlord & Tenant Act 1985.
- Firms are not explicitly required by PROD to consider the needs, interests, characteristics and objectives of leaseholders when manufacturing and distributing products.

36. We have assumed that without our intervention, the harms identified would persist in the same way as currently.

Summary of Costs & Benefits

37. Table 1 below summarises the costs and benefits we expect. Items shown in italics indicate that we expect some or all of the costs to be a direct transfer from firms to consumers:

Table 1: Summary of costs and benefits

	Benefits	Costs	
		One-off	Ongoing (annual)
To firms			
Familiarisation, legal and gap analysis		£145k	
Enhanced disclosure requirements	Not quantified – enhanced trust and confidence	£520k-£910k	• Minimal significance – costs of providing disclosure • Not quantified – costs of dealing with leaseholder queries • Not quantified – costs of increased tribunal challenges • Not quantified – costs of changing practices
Product governance, customer's best interests and remuneration	Not quantified – enhanced trust and confidence	Minimal costs	• £2.8m cost of ongoing product reviews (likely a conservative estimate as noted in paragraph 54 below) • Not quantified – costs of product changes • Not quantified – costs to firms outside the multi-occupancy buildings insurance market
TOTAL – quantified		£665k-£1.06m	£2.8m
Total discounted costs over 10 years, Present value terms		£24.9m- £25.3m	
To leaseholders and other consumers			

	Benefits	Costs	
		One-off	Ongoing (annual)
To firms			
Disclosure	• Not quantified – benefits from price reductions • Not quantified – benefits from improved product suitability • Not quantified – time saved and improved wellbeing		• Minimal significance – price increases due to cost recovery • Not quantified – recovery of lost profit
Product governance, customer's best interests and remuneration	• Not quantified – product/pricing changes		
To others			
Disclosure	None	None	Not quantified – costs of changing practices
Product governance, customer's best interests and remuneration	None	None	*Not quantified – costs of changing practices*

38. As benefits from our proposals are hard to quantify ex ante, we have conducted a breakeven analysis to contextualise the benefits required for this proposed intervention to be net beneficial. Table 2 illustrates the monetised benefits that leaseholders in mid-rise and high-rise buildings would need to be obtained over the next 10 years in order for the proposed interventions to break even against the estimated costs. We believe that the benefits to leaseholders and other consumers will far exceed these breakeven estimates.

Table 2: Breakeven analysis

	Total benefit over 10 years	Average benefit per year
Monetary benefit per building needed, on average, to break even	£273 - £278	£27-£28
Average monetary benefit per building needed, on average, to break even, expressed as a percentage reduction in the average insurance premium		0.18%

Costs to firms

39. In this section we outline all costs we expect authorised firms (eg insurers, brokers) will have to incur to comply with our proposed rules. We acknowledge that firms may pass on some of these additional costs to consumers by increasing the prices of their products or services. However, as explained earlier, we also expect that the proposed rules will strengthen downward pricing pressures (eg by allowing leaseholders to more easily challenge practices). We expect that the net effect of our rules will be to reduce prices.

Familiarisation and legal costs

40. We expect firms affected by our intervention will read relevant changes put forward as part of the proposals in this consultation paper and will familiarise themselves with the detailed requirements of the proposed rules and guidance. We use standardised cost assumptions to calculate these.

41. We have estimated the costs of this to firms based on assumptions on the time required to read the 44 pages-long consultation paper. We assume that there are 300 words per page and reading speed is 100 words per minute. This means that the document would take 2.2 hours to read. We estimate that familiarisation for insurers will require 20 staff members to read the document, with an average salary of £62 per hour, including overheads. For intermediaries, we assume 5 staff members with an average salary of £65 per hour, including overheads. Based on this, we expect total familiarisation costs of **£70k** across the sector.

42. Following familiarisation with the proposals put forward, we expect firms to conduct a legal review of the proposals and a gap analysis to check their current practices against expectations. We have estimated this cost to firms based on assumptions on the time required for a team to analyse the 16 pages-long legal text, requiring 36 hours of review from a 4-person legal team for insurers and 13 hours for intermediaries of review from a 2-person legal team. Our assumed salary including overheads is £72 per hour. Based on this, we expect legal review and gap analysis costs of **£74k** across the sector.

43. We therefore estimate the total one-off costs for familiarisation and legal costs of **£145k**.

Enhanced disclosure requirements

One-off and ongoing costs

44. We are proposing new disclosure requirements for both insurers and intermediaries. These are specific to multi-occupancy buildings insurance policies, and will require disclosure of:

- a summary of the policy (in line with the IPID or similar existing document). This will be disclosed by the insurer
- the remuneration received by the intermediary, and any paid on to others in the distribution chain
- the number of alternative quotes obtained by the intermediary

- information on links between the intermediary and any insurer

45. Although the information will be provided to the freeholder in most cases, we are proposing that it be provided with a message that it should be passed on to the leaseholders. The information should be provided in a format which would enable this; most likely electronically.

46. The rules we propose allow firms to rely on existing disclosures where they meet the requirements, although firms may choose to combine these into new documents if they wish. As the information required to be disclosed by the insurer is consistent with their existing disclosure obligations in ICOBS 6, we do not estimate more than minimal costs in complying with the proposed rules. That is also the case for the information about links to insurers, which intermediaries are already required to disclose.

47. The rules will require the proactive disclosure of remuneration and the number of alternative quotes. This is not currently required by our rules, although our rules do require remuneration disclosure on request. This will only impact intermediaries. To assess the costs of this change we have used estimates for other disclosure requirements introduced recently, for example, the requirements to disclose information concerning auto-renewal, introduced as part of our work on general insurance pricing practices. Based on our experience of the industry we consider that these are a good basis to estimate the costs these proposals are likely to have. Based on this the estimated costs of £27.5k per firm. We have then applied these to the 26 intermediaries we assume are operating in this sector. This gives an estimate that the requirement will lead to one-off costs of **£520k-£910k** across the industry. We do not anticipate more than minimal ongoing costs because we expect the information will be provided alongside existing information which is already required to be disclosed.

Cost of challenges and changes to practices

48. Our proposals include guidance that insurance firms should respond if leaseholders contact them directly with queries about the information disclosed. This is likely to increase administration costs for firms. We cannot estimate the impact of this because it depends on both the freeholders following the instruction to provide the information to leaseholders, and on the response of leaseholders to it. However, we expect the costs to be low as the majority of leaseholders are likely to raise queries with the freeholder or their agent, although this may depend on the nature of the relationship between the leaseholders and the freeholder.

49. The requirement to actively disclose information about the policy, remuneration and the number of alternative quotes obtained may lead to an increased number of tribunal challenges from leaseholders. This is likely to increase costs for firms in defending such challenges. We cannot estimate this for the same reasons as paragraph 48 above.

50. To prevent an increase in challenges, firms may choose to amend their practices (such as lowering remuneration or ceasing to pay commission to some parties in the distribution chain) which could result in loss of income or other costs to firms. Firms who lose cases in the tribunal are likely to have to amend their practices as a result, to comply with tribunal rulings. We cannot estimate this because we cannot assess whether

the tribunal would be likely to determine such challenges in the leaseholder's favour. However, we expect these costs to transfer directly into benefits for leaseholders through price reductions and product enhancements.

Product governance and remuneration

Implementation and ongoing costs

51. We are proposing to amend the PROD rules so that product manufacturers are required to consider the needs and interests of leaseholders and others in similar positions when designing, approving and reviewing products. There will be a similar obligation on product distributors in regard to their distribution processes.

52. As explained in our baseline assumptions, insurance product manufacturers and distributors are already subject to our PROD rules and so should already have compliant systems and processes in place. For that reason, we do not consider firms will have more than minimal one-off costs in establishing or amending their processes.

53. As the rules require both an initial product approval and ongoing review, we expect firms will have additional costs regarding their multi-occupancy buildings insurance products on an ongoing basis. In CP20/19 we assessed the impact of new product governance requirements. As the change we are proposing now is based on applying those CP20/19 requirements to multi-occupancy buildings insurance products, we consider the estimates in CP20/19 to be the most appropriate basis to assess the costs. These estimates are based on a survey conducted of a range of insurers and intermediaries. Based on the estimations made in CP20/19, we expect these to be £80k for insurers and £50k for intermediaries. That gives us an estimated maximum total ongoing cost of **£2.8m** per year across the industry.

54. These figures are based on none of the products currently being subject to the PROD rules at all because they all fall within the large risks exclusion. In practice, most multi-occupancy buildings insurance products will already be subject to PROD because most firms have told us they do not differentiate between products for 'large risks' and those for other customers. This means most firms will only be required to implement more limited changes to their existing, established processes. As such we expect the costs to be significantly lower than the costs above.

55. There are likely to be similar costs for firms manufacturing and distributing products paid for by people in similar situations to leaseholders in other parts of the insurance market (such as group policyholders and those within the proposed category of policy stakeholders). We cannot produce an estimate for the total costs across these markets because it is not reasonably practicable for us to identify and estimate the total number of products across the whole insurance sector which could be impacted by this change. We consider that the per firm estimates in paragraph 53 are likely to be the same for these impacted firms. However, in practice the actual costs for these firms may be lower because these products are already subject to the PROD rules and so the affected firms are expected to be already compliant.

Costs of product changes

56. We are introducing two changes which we consider are likely to lead to product changes and price reductions:

- The PROD rules will require that products offer fair value to leaseholders (and others). This means firms will need to ensure each component of the price they charge has a reasonable relationship to the benefits received by leaseholders. Price components which do not have a reasonable relationship to benefits will need to be reduced. We expect the most significant impact will be on remuneration, and in particular on practices which lead to remuneration that does not have a reasonable relationship to the work being done by the party receiving it.
- The SYSC 19F rules will require firms to ensure they are not remunerated in a way that conflicts with the leaseholders' best interests. This will prohibit firms from proposing contracts because of remuneration levels and should result in either lower priced or higher quality products being offered.

57. These are likely to result in lower income for some parties in the distribution chain. It is not reasonably practical for us to accurately estimate the impacts of these changes because they will depend on the extent to which current practices are not currently compliant with these requirements, and firms' responses to the changes we are proposing. Whilst we have highlighted examples in our report of commission practices which appear difficult to justify, it is not possible for us to individually assess each situation and determine which practices would be fair. However, we expect these costs to transfer directly into benefits for leaseholders (and others) through price reductions and product enhancements.

Costs to others

58. Our proposals could lead indirectly to additional costs for freeholders and property managing agents. It is not reasonably practicable for us to estimate these costs because:

- As noted in paragraph 57, the impacts will depend on the extent to which firms are currently engaged in practices that will not comply with the proposed rules.
- As these parties are outside our perimeter, we have no way of identifying them, nor of obtaining from them the information that would be required to assess the costs.

59. Firms may seek to recover some of the costs identified here by increasing their prices. However, as the costs to firms are relatively small, we consider any costs passed on to individual leaseholders would be negligible.

60. It is possible that freeholders and property managing agents could seek to increase fees they charge to leaseholders as a means of recovering lost income (eg if they are no longer able to receive a share of the insurance commission). This would result in a cost to leaseholders. As most freeholders and property managers are outside our regulatory perimeter, this is not something reasonably practicable for us to quantify.

Benefits to leaseholders and other consumers

61. Benefits to consumers should be driven by our proposals reducing the identified harms. We expect these benefits to be realised through a number of different ways. As explained earlier, we expect that both our proposed interventions will benefit leaseholders, while our interventions on product governance and remuneration will also benefit other consumers, such as group policyholders.

Price reductions

62. We expect our proposed interventions to reduce prices in a number of ways. Firstly, the proposed changes to the PROD rules will mean manufacturers will need to consider all components of the price and ensure they are providing fair value to policy stakeholders. This will directly address the current situation where leaseholders (and other policy stakeholders) are not considered in the product approval process. We also expect that the proposed PROD rule changes will lead brokers to correct unjustifiable practices and commission levels. To the extent that firms change their practices to comply with the proposed changes, we expect that the new rules will result in lower prices.

63. Secondly, we expect the proposed disclosure rules to address the information asymmetry and thereby allow leaseholders to challenge costs and put more pressure on freeholders and their agents to minimise them. We expect that this will ultimately strengthen competitive pressure and lead to lower prices.

64. These impacts are likely to be strengthened by the likelihood of our proposed disclosure requirements making it easier for leaseholders to bring tribunal challenges against unfair costs. Successful challenges benefit the leaseholders who bring them, as well as others in their situation, and may incentivise firms to change practices to protect themselves from such challenges.

65. Ultimately, price reductions will not only provide financial benefits to leaseholders but will also mean leaseholders face less psychological distress where this was resulting from having to meet high service charges.

66. It is not reasonably practicable for us to estimate these benefits. This is because:

- Reductions in commission levels and changes to remuneration practices depend on the extent to which current practices are not compliant with these requirements, and firms' responses to the changes we are proposing.
- The extent to which disclosure puts downward pressure on pricing depends on both the freeholder passing the information on and the response of leaseholders to it. It also depends on the outcome of future tribunal cases which we cannot predict.

67. We are mindful of the role that unregulated parties play in the distribution of multi-occupancy buildings insurance. These parties are not subject to our rules and may have the ability to offset some of the benefits by increasing charges for other housing or buildings related matters. We are unable to estimate this because it depends on the conduct of parties outside of our remit.

Product changes

68. The proposed PROD changes will benefit leaseholders (and other policy stakeholders) through improved assessment of target markets, distribution strategies and product reviews. This should lead to products that are better designed to meet the needs of leaseholders and provide appropriate cover to ensure leaseholders can benefit from it (for example, affordable excess levels). We expect this to provide direct financial benefits to leaseholders in the event of a claim, and also reductions in psychological distress and additional costs for leaseholders in either fearing or finding they are not protected by the insurance product. It is not reasonably possible for us to estimate these benefits because they depend on firms' responses to the changes we are proposing and also on future claims events which cannot be predicted.

Time savings and wellbeing

69. We know from both the responses to our report and our engagement with stakeholders than some leaseholders have spent considerable amounts of time attempting to obtain information which is included in our proposed disclosure rules. They have typically done this on the basis that they are concerned about the fairness of insurance costs passed on to them and are seeking to obtain information with a view to challenging them at the tribunal. We also know that many requests for information are either denied or receive no response.

70. We expect our proposed rules to reduce the amount of time and effort required to obtain the information, as well as ensuring that the information is always provided. This time saving and proactive disclosure should lead to benefits of reduced stress and improved wellbeing. We do not consider it is reasonably possible for us to estimate these benefits.

Distributional impacts

71. The data available to us do not permit an in-depth analysis of distributional impacts, as we have no information on financial or other characteristics of leaseholders. We have no evidence to suggest that these consumers are more vulnerable than others (eg freehold homeowners). However, to the extent that the leaseholders pass on some of the expected insurance price reductions to renters, the benefits may extend to more consumers with vulnerability characteristics.

Other points

72. We expect the majority of benefits will be to leaseholders in multi-occupancy buildings. However, where our proposals impact other products, we expect consumers to receive similar benefits. For example, consumers who are policyholders under a group scheme will benefit from the changes to the PROD rules in the same way as leaseholders as their interests will now be specifically considered by firms.

Benefits to firms

73. Our proposals may lead to benefits for firms:

- We expect better information provision will lead to increased trust and confidence in the market.
- Our proposals may encourage firms to operate more efficiently. Increased transparency may increase demand for the services (from both freeholders and leaseholders) of more efficient insurance providers over others.

74. We cannot estimate these benefits because they will depend on freeholders', leaseholders' and firms' reactions to regulation and on future market developments.

Breakeven analysis

75. As the expected benefits from our proposals are difficult to quantify ex ante, we have conducted a breakeven analysis. In this analysis we estimate the benefits that leaseholders would need to obtain, in monetary terms, in order for the proposed interventions to break even against the estimated costs.

76. There are no data available on the total number of individual residences covered, so instead we estimate the benefits that would be required for our remedies to be net beneficial on a per building basis. We do this using DLUHC's estimate of the number of mid-rise and high-rise multi-occupancy buildings in England (90,500), and the Scottish Government's estimate of the number of high-rise multi-occupancy buildings in Scotland (774). Given that each building may contain a large number of individual residences, the benefits required per leaseholder are likely to be much lower than the estimates on a per building basis. There are no equivalent figures available for mid-rise buildings in Scotland, nor are there any figures for mid-rise and high-rise buildings in Wales and Northern Ireland. For that reason, the actual benefits required for the interventions to break even are likely to be slightly lower than those estimated, because the number of impacted buildings will be higher.

77. This analysis is based solely on the quantified costs to firms. Most of the unquantified costs are likely to lead to benefits to leaseholders (and others) in the form of transfers, which will net each other out.

78. To estimate the breakeven benefits we first calculated the total quantified costs (one-off and ongoing) that we estimate firms would have to incur over 10 years in present value terms. This ranges from £24.9m to £25.3m. We then obtained the breakeven benefit per building by our best estimate of the number of affected buildings (91,274). Using this calculation we estimated a breakeven benefit of £273-£278 per building over the 10-year period, or approximately £27-£28 per building per year. This corresponds to a 0.18% reduction in the mean annual insurance premium (based on our September 2022 report, the mean insurance premium in 2021 was £15.3k). We believe that the benefits to leaseholders and other customers will far exceed these breakeven estimates.

International competitiveness and growth

79. Although not in force at this time, we have considered our proposals in the light of the potential FCA secondary international competitiveness and growth objective. We believe that our proposal will achieve the following benefits, advancing the secondary objective.

80. We expect that our proposals will improve practices within the insurance market in a way that will enhance the trust and confidence of customers and others. This will be achieved through:

- greater transparency, providing an incentive for firms to improve practices, as well as making it easier for poor practices to be challenged
- specific obligations on firms to consider and act in accordance with the best interests of a wider group of customers

81. We also expect that, by improving transparency and empowering leaseholders, our proposals will enhance competition within the market.

Q10: Do you have any comments on our cost benefit analysis?

Annex 2

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s.1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s.1B(5)(a) FSMA to have regard to the regulatory principles in s.3B FSMA. The FCA is also required by s.138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s.1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s.1JA FSMA about aspects of the economic policy of HM Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objectives of:

- **Securing an appropriate degree of protection for consumers:** Our enhanced disclosure requirements and inclusion of leaseholders with the definition of 'customer' under parts of ICOBS, SYSC and PROD, will improve outcomes for leaseholders by making them better aware of insurance pricing, enable them to challenge unfair placement of insurance, and ensure they receive better value products.
- **Promoting effective competition in the interests of consumers:** Our remedies aim to ensure that competition works effectively in the interests of all consumers including leaseholders. The enhanced disclosure should increase scrutiny on firms' practices and encourage the development of products and services which are in the best interests of leaseholders.

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s.1F FSMA.

9. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s.3B FSMA.

The need to use our resources in the most efficient and economic way

10. We will put in place a strong supervisory approach to ensure firms comply with any rules we implement.

The principle that a burden or restriction should be proportionate to the benefits

11. We have carried out a cost benefit analysis, set out in Annex 1, and are satisfied that the benefits of implementing the remedies are likely to be proportionate to the potential costs involved.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

12. We have had regard to this principle and do not believe our proposals undermine it. Our proposals will make this market more competitive and deliver greater overall consumer benefits.

The general principle that consumers should take responsibility for their decisions

13. The way the multi-occupancy building insurance works means that leaseholders are generally not the 'customer' or 'policyholder' under the policy even though they pay the insurance premiums. They are not responsible for shopping around or purchasing the policy. Rather it is the freeholder who is the customer. We believe our proposed rule changes will empower leaseholders and enhance the responsibility of freeholders

to shop around for better value products. For example, our enhanced disclosure requirements will mean that leaseholders can challenge freeholders where they feel the decision to purchase a policy was influenced by commissions paid to freeholders or other conflicts of interests.

The responsibilities of senior management

14. Our proposals will lead to review of product value by senior managers when considering the interests of leaseholders as part of the target market. This will improve senior management oversight and monitoring, and, where appropriate, encourage them to make improvements to their products.

The principle that we should exercise of our functions as transparently as possible

15. By consulting on the remedies, we are acting in accordance with this principle. We have also taken account of feedback to our report in developing our proposals.

16. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s.1B(5)(b) FSMA).

Expected effect on mutual societies

17. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Equality and diversity

18. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

19. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration these matters is that we do not believe our proposed rule changes in this consultation paper would impact on groups with protected characteristics.

Legislative and Regulatory Reform Act 2006 (LRRA)

20. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily. We consider that this will lead to improved outcomes for consumers including leaseholders and addresses the issue identified in the multi-occupancy buildings insurance market. We also believe the proposals are proportionate and will result in an appropriate level of consumer protection when balanced with impacts on firms and competition.

21. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. This consultation is a way for firms to let us know their views of our proposals. We have identified the potential risks of not taking action by articulating potential harms. The consultation paper and instrument will allow firms to understand the requirements applicable to them. We are also setting out transparently what our policy aims are so that firms can take those into account.

Annex 3

Questions in this paper

Q1: **Do you have any comments on our proposed three-month implementation period?**

Q2: **Do you agree with our proposal to introduce new disclosure requirements for multi-occupancy buildings insurance policies? If not, please explain why.**

Q3: **Do you agree with the proposed contents of disclosure? If not, please explain why.**

Q4: **Do you agree with the proposed format and timing of the disclosures? If not, please explain why.**

Q5: **Do you agree with the inclusion of contracts of large risks in our proposals? If not, please explain why.**

Q6: **Do you agree with our proposed changes to how the PROD rules apply for the protection of leaseholders? If not, please explain why.**

Q7: **Do you agree with our proposed extension of the PROD rules to cover all policyholders and policy stakeholders? If not, please explain why.**

Q8: **Do you agree with our proposed changes to the ICOBS customer's best interests rule, and related rules? If not, please explain why.**

Q9: **Do you agree with our proposed changes to the SYSC remuneration rules? If not, please explain why.**

Q10: **Do you have any comments on our cost benefit analysis?**

Annex 4

List of non-confidential respondents to the report

Adam Parkinson

Allianz Insurance PLC

Amelia Ellis

Andy Causby

Anne Fauconnier-Bank

Association of British Insurers

Aviva Insurance Limited

AXA UK Plc

Bindi Shah

British Insurance Brokers Association

Brownhill Insurance Group Limited

Capital East Phase 2 Residents' Association

Carol Cashmore

Caroline Milne

CGP Commercial Property LLP

Cherry Ko

Chloe Nock

Chris Crotty

Claudia Walker

Clive Batchelor

Colin Mansell

Covea Insurance PLC

Deborah Kol

Dee Farrow

Donna Williams

End Our Cladding Scandal

Greg Van Heerden

Greig Bannerman

Harmony Management Ltd

Helen Hubert

Henry Lee

Ian Norris

Janet Sullivan

Jemima Ahmed

Jeremy Perkins

Joanna Janeczko

Joe Douglas

John Bakrin

John Killick

Jon Allen

Kay Hornby

Kenneth O'Keeffe

Lawrie Philpot

Liam Greene

Liam Spender

Linda Pike

Linton Davies

Lucy Sekers

Malathi Paramsothi-Palmer

Martin Madera

Martin Scobie

Massimo Vascotto

Mina Kirollos

Mr M Kamijo-Flanagan

Munich Re Specialty Insurance (UK) Limited

Naureen Qureshi

Neil Burford

New Central Leaseholders Action Group

Nick Boulton

Nikolaos Metzidakis

Olga Kalinina

Olivia Davies

Patrecia Lopez

Paul Bullock

Paul Critchley

Preeti Capildeo

Realty Insurances Limited

Residents Association of Canary Riverside

Residents Property Management company

Rituparna Saha

Rob Swift

Robert Edge

Royal Institute of Chartered Surveyors

Ruth Bravery

Sacha Schwarz

Sharon Batchelor

Simon Davies

Spectrum Residents Association

St Mary's Football Group Limited

St Pancras Chambers Residents Association Limited

Sturdy Edwards (Insurance Brokers) Ltd

The Home Ownership Group

The Leasehold Knowledge Partnership

The Property Institute (The Association of Residential Managing Agents)

Tiffany Victoria

West India Quay Residents Association

Willis Limited

Zeina Achi

Zurich Insurance Company Limited

Annex 5

Abbreviations used in this paper

Acronym	Description
CBA	Cost benefit analysis
DISP	Dispute Resolution: Complaints sourcebook
DLUHC	The Department for Levelling-Up, Housing and Communities
FCA	The Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
ICOBS	Insurance: Conduct of Business sourcebook
IPID	Insurance Product Information Document
LRRA	Legislative and Regulatory Reform Act 2006
PMA	Property Managing Agent
PROD	Product Intervention and Product Governance sourcebook
SYSC	Senior Management Arrangements, Systems and Controls sourcebook

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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Appendix 1

Draft Handbook text

MULTI-OCCUPANCY BUILDING INSURANCE DISCLOSURE AND OTHER NON-INVESTMENT INSURANCE CONTRACTS RELATED AMENDMENTS INSTRUMENT 2023

Powers exercised

A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):

(1) section 137A (The FCA’s general rules);
(2) section 137T (General supplementary powers); and
(3) section 139A (Power of the FCA to give guidance).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Insurance: Conduct of Business sourcebook (ICOBS)	Annex C
Product Intervention and Product Governance sourcebook (PROD)	Annex D

Notes

E. In this instrument, the notes (indicated by “**Note:**”, “Note:” or “*Editor’s note*:”) are intended for the convenience of the reader but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Multi-Occupancy Building Insurance Disclosure And Other Non-Investment Insurance Contracts Related Amendments Instrument 2023.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

freeholder (in *ICOBS*, *SYSC* 19F.2, *PROD* 1.4 and *PROD* 4) in relation to a *multi-occupancy building insurance contract*, a landlord within the meaning of paragraph 1 of Schedule 1 to the Landlord and Tenant Act 1985.

leaseholder (in *ICOBS*, *SYSC* 19F.2, *PROD* 1.4 and *PROD* 4) in relation to a *multi-occupancy building insurance contract*, a tenant within the meaning of section 30 of the Landlord and Tenant Act 1985 and including a recognised tenants' association.

multi-occupancy building insurance contract a *policy* within the meaning of paragraph 1 of Schedule 1 to the Landlord and Tenant Act 1985.

policy stakeholder a *person* who is under a contractual or statutory obligation to pay an amount:

(1) relating to:

(a) the *premium*; and

(b) any other costs connected to the distribution,

of a *non-investment insurance contract*; and

(2) where the obligation arises in relation to the person having an interest and/or benefit in the subject matter of the insurance.

Amend the following definition as shown.

customer (A) …

…

(B) in the *FCA Handbook*:

…

(3) (in relation to ~~*SYSC* 19F.2,~~ *ICOBS*, *retail premium finance*, *DISP* 1.1.10-BR, and for *PROD* 1.4 and *PROD*

4 in relation to a *life policy* only) a *person* who is a *policyholder*, or a prospective *policyholder*, excluding a *policyholder* or prospective *policyholder* who does not make the arrangements preparatory to the conclusion of the *contract of insurance*.

(3A) (in relation to *ICOBS* 2 (General matters) and in respect of that chapter also *ICOBS* 1 (Application), *SYSC* 19F.2 and for *PROD* 1.4 and *PROD* 4 in relation to a *non-investment insurance product*) a *person* who is:

(a) a *policyholder*, or a prospective *policyholder*.; and

(b) (in relation to *ICOBS* 2.5-1R, and for *PROD* 1.4 and *PROD* 4 in relation a *non-investment insurance product*) in addition to (a), a *policy stakeholder* (including a *leaseholder*).

…

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

19F Remuneration and performance management

…

19F.2 IDD remuneration incentives

…

Remuneration and the customer's best interests

19F.2.2 R (1) ...

(2) In particular, an *insurance distributor* must not make any arrangements by way of *remuneration*, sales target or otherwise that could provide an incentive to itself or its *employees* to recommend a particular *contract of insurance* to a *customer* in contact with the *firm* when the *insurance distributor* could offer a different insurance contract which would better meet the *customer's* needs.

[**Note:** article 17(3) of the *IDD*]

(3) In relation to a *non-investment insurance contract*, an *insurance distributor* must not make any arrangements by way of remuneration or incentive to any *person*, including itself, its *employees* or any third party, that could lead:

(a) the *firm* or its *employees* to arrange a particular *contract of insurance*; or

(b) the *customer* to take out a particular insurance contract,

where that would not be consistent with the interests of all *customers* of the *policy* including prospective or actual *policyholders* or *policy stakeholders* including *leaseholders* (as the case may be).

19F.2.2A G (1) When assessing if it complies with *SYSC* 19F.2.2R, an *insurance distributor* should consider all of the *remuneration* it receives in connection with a *non-investment insurance contract*, whether or not it intends to retain that *remuneration* or make payments out of that amount to another *person*. *Firms* should consider whether the gross amount of any sum it receives by way of *remuneration*,

whether in the form of *commission* or of any other type, is consistent with *ICOBS* 2.5.-1R, rather than the net amount that the *firm* intends to retain.

(2) Where a *firm* has arrangements to provide incentives, including partial *premium* refunds or commission like payments, to third parties (including the *customer* taking out the *policy*), this may encourage those *persons* to use the services of the *firm*. Where that is the case, those arrangements would be expected to lead to the *firm* receiving a financial or non-financial benefit or other incentive in respect of the *insurance distribution activities* to which it relates and so would be *remuneration* to which *SYSC* 19F.2.2R(1) applies.

…

Annex C

Amendments to Insurance: Conduct of Business sourcebook (ICOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Application

…

1 Annex 1 Application (see ICOBS 1.1.2R)

Part 1: Who?					
Modifications to the general application rule according to type of firm					
…					
7	Gibraltar-based firms and TP firms				
7.1	R	(1)	…		
		(2)	The provisions specified for the purposes of (1) are:		
			(a)	...	
			…		
			(c)	*ICOBS* 5.1.3CR(1A), *ICOBS* 6.2.6R, and *ICOBS* 6.2.7G, *ICOBS* 6.5.1R(3)(d) and *ICOBS* 6A.6 (Cancellation of automatic renewal); ~~and~~	
			(d)	*ICOBS* 6B (Home and motor insurance pricing)~~.~~; and	
			(e)	*ICOBS* 6A.7 (Disclosure Requirements for Multi-Occupancy Buildings Insurance).	
			…		

Part 2: What?
Modifications to the general application rule according to type of firm

…			
2	Contracts of large risks		
2.1	R	Subject to Part 3 of this Annex:	
		(1)	…
		(2)	only *ICOBS* 2 (General matters) ~~and~~, *ICOBS* 6A.3 (Cross-selling) and *ICOBS* 6A.7 (Disclosure Requirements for Multi-Occupancy Buildings Insurance) apply to a *firm* distributing a *contract of large risks* for a *commercial customer* where the risk is located within the *United Kingdom*; and
		(3)	….
…			

2 General matters

…

2.5 Acting honestly, fairly and professionally, exclusion of liability, conditions and warranties

The customer's best interests rule

2.5.-1 R A *firm* must act honestly, fairly and professionally in accordance with the best interests of its *customer*.

…

…

Other requirements

2.5.4 G …

2.5.5 G *Firms* are reminded that for *non-investment insurance contracts* their obligations under the *customer's best interests rule* (and in *SYSC* 19F.2 and *PROD* 4) will include consideration of the interests of any *policy stakeholder* of which the *firm* should be aware (which in relation to a *multi-occupancy building insurance contract* will include any *leaseholder*).

Customer's best interests rule and third-party incentives

2.5.6 G (1) A *firm* that offers incentives to third parties in connection with a *non-investment insurance contract* should consider whether doing so conflicts with its obligations under the *customer's best interests rule*,

including whether this is consistent with the interests of *policyholders* and any *policy stakeholder* in relation to a *multi-occupancy building insurance contract*.

(2) A 'third party incentive' is a benefit offered to any third party, with a view to that *firm*, or that *person*, adopting a particular course of action (for a *customer*, this includes taking out a particular *contract of insurance*), or which could be perceived as having that effect. This can include, but is not limited to, cash, cash equivalents, *commission*, goods, hospitality or training programmes.

…

Insert the following new section, ICOBS 6A.7, after ICOBS 6A.6 (Cancellation of automatic renewal). The text is not underlined.

6A.7 Disclosure requirements for multi-occupancy buildings insurance

Application

6A.7.1 R This section applies in relation to a *multi-occupancy building insurance contract*.

Purpose

6A.7.2 G The purpose of this section is to:

(1) improve transparency in the *multi-occupancy building insurance contract* market; and

(2) enable *leaseholders* to receive clear and accessible information about the building insurance arrangements in connection with the building in which they are tenants to allow them to better understand:

(a) the scope of insurance cover in relation to that building; and

(b) how any tenancy charges relating to the *multi-occupancy building insurance contract* have been incurred.

What information must be disclosed

6A.7.3 R (1) As soon as reasonably practicable, after the conclusion of a *multi-occupancy building insurance contract*, and upon any subsequent *renewal*, a *firm* must:

(a) give the *customer* the information specified in (2); and

(b) tell the *customer* to pass a copy of this information on promptly and in full to any *leaseholder* of the building in relation to which the *multi-occupancy building insurance contract* provides cover.

(2) The information in (1) must include:

(a) a summary of the cover (in accordance with *ICOBS* 6A.7.5R);

(b) pricing information (in accordance with *ICOBS* 6A.7.6R);

(c) remuneration information (in accordance with ICOBS 6A.7.7R);

(d) (for an *insurance intermediary*) placing and shopping around information (in accordance with *ICOBS* 6A.7.9R); and

(e) (for an *insurance intermediary*) conflicts of interest information (in accordance with *ICOBS* 6A.7.12R).

(3) Where the *firm* is in contact with, or has contact details for, a *leaseholder*:

(a) it may meet the requirements in (1) by instead providing the information directly to the *leaseholder*; and

(b) where it has been made aware that the *leaseholder* has not received any information in (2) from the *customer*, it must provide the *leaseholder* with that information.

6A.7.4 G The table in *ICOBS* 6A.7.19R sets out the responsibilities of *insurers* and *intermediaries* in relation to which *firm* will be responsible for producing the information required by this section and which *firm* will be responsible for giving this information to the *customer*, or *leaseholder*, in order to meet *ICOBS* 6A.7.3R(1).

Summary of the cover

6A.7.5 R The summary of the cover under *ICOBS* 6A.7.3R(2)(a) must include, where applicable, the following information:

(1) name of the *insurance undertaking* and its regulatory status;

(2) type of insurance;

(3) main risks insured;

(4) summary of excluded risks;

(5) the insured sum together with:

(a) in the case of a dwelling other than a flat, the amount for which the dwelling is insured under the *policy*; and

(b) in the case of a flat, the amount for which the building containing it is insured under the *policy* and, if specified in the *policy*, the amount for which the flat is insured under it.

(6) excesses;

(7) term/duration of the *policy* including the start and end dates of the contract;

(8) exclusions where claims cannot be made; and

(9) significant features and benefits.

Pricing information

6A.7.6 R The pricing information required by *ICOBS* 6A.7.3R(2)(b) must set out the total *premium* for the *policy* and include:

(1) the amount of insurance premium tax;

(2) the amount of value added tax; and

(3) a breakdown of the *premium* at:

(a) (in the case of a flat) building level and (if specified in the *policy*) the flat; and

(b) (in the case of a dwelling that is not a flat) at dwelling level.

Remuneration information

6A.7.7 R The remuneration information required by *ICOBS* 6A.7.3R(2)(c) must include:

(1) the total *commission* that the *firm* and any *associate* receives; and

(2) any remuneration or other financial incentive offered or given by the *firm* to any third party, including the *freeholder* or anyone acting on their behalf, in particular where the *firm* knows, or should be reasonably aware, that sum will be included in the amount a *leaseholder* would be liable to pay,

in connection with the *multi-occupancy building insurance contract.*

6A.7.8 R The disclosure in *ICOBS* 6A.7.7R must be in cash terms (estimated, if necessary).

Placement and shopping around information

6A.7.9 R The information required by *ICOBS* 6A.7.3R(2)(d) must include:

(1) the number of alternative *policy* quotes the *firm* obtained from:

(a) the *insurance undertaking* with whom the *multi-occupancy building insurance contract* was taken out; and

(b) any other *insurance undertaking(s)*; and

(2) an explanation of why the particular *multi-occupancy building insurance contract* taken out was consistent with the interests of both the *customer* and the *leaseholder*.

6A.7.10 R In relation to the information in *ICOBS* 6A.7.9R(1), a *firm* must, on request from a *customer* or a *leaseholder*, provide further details on the quotes it obtained.

6A.7.11 G The explanation in *ICOBS* 6A.7.9R(2) may be adapted according to whether the *firm* provided *advice* in relation to the *policy* or not. It would be expected that where a *personal recommendation* has been provided, the explanation will set out why the particular *policy* was presented as suitable for the *customer*, taking into account its level of cover and cost, and relevant exclusions, excesses, limitations and conditions. Whether or not the *policy* was taken out following the provision of advice to the *customer*, the explanation should provide sufficient detail to enable the *customer* and *leaseholder* to understand why the particular *policy* was proposed.

Conflicts of interest information

6A.7.12 R The information required in *ICOBS* 6A.7.3R(2)(e) must include:

(1) whether the *firm* has a direct or indirect holding representing 10% or more of the voting rights or capital in a given *insurance undertaking*;

(2) whether a given *insurance undertaking* or its *parent undertaking* has a direct or indirect holding representing 10% or more of the voting rights or capital in the *firm*; and

(3) whether the *firm* is representing the *customer* or is acting for and on behalf of the *insurer*.

Providing required information under ICOBS 6A.7

6A.7.13 R (1) The information required by *ICOBS* 6A.7.3R may be provided:

(a) in a standalone document; or

(b) in a combination of documents including using documents provided to the *customer* for the purposes of other *ICOBS rules*.

(2) A *firm* must ensure the information required by *ICOBS* 6A.7.3R, in particular when presented in a combination of documents, is:

(a) clear, fair, and not misleading;

(b) accessible and easy to understand for *leaseholders*; and

(c) sufficiently prominent and clearly identifiable as containing key information that the *leaseholder* should read (individually and when the documents are taken together).

6A.7.14 G (1) When determining the format in which the *firm* will provide the information for the purposes of *ICOBS* 6A.7.13R, a *firm* should consider what a *leaseholder* needs in order to understand the relevance of any information provided by the *firm*.

(2) In order to provide the information required in *ICOBS* 6A.7.3R, a *firm* may rely, at least in part, on the content in existing documents that are provided to the *customer* to meet disclosure requirements elsewhere in *ICOBS*, for example the *IPID* or *policy summary*, that include that information.

Means of communication

6A.7.15 R (1) The information in *ICOBS* 6A.7 must be given on paper or another *durable medium* in accordance with *ICOBS* 4.1A (Means of communication to customers).

(2) A *firm* must use reasonable endeavours to ensure any election of the medium in which the information is to be provided is appropriate for the *leaseholders* receiving the information.

Receiving and responding to queries from customers and leaseholders

6A.7.16 R Where a *firm* is contacted by a *customer* or *leaseholder* in relation to the information required to be provided by any of the rules in *ICOBS* 6.7, it must:

(1) respond promptly; and

(2) provide good outcomes-focused support that is appropriate given the nature of the query, including by providing:

(a) an appropriate level of information to meet their needs that is:

(i) clear, fair and not misleading; and

(ii) accessible and easy to understand; and

(b) the information required to be given to the *customer* under *ICOBS* 6A.7.3R where this has not been passed on to a *leaseholder*.

6A.7.17 G (1) When considering the good outcomes in *ICOBS* 6A.7.16R(2) in relation to a query from a *leaseholder*, a *firm* should consider the purpose of the *policy* and the interests of the *leaseholders*.

(2) Where the *firm* receiving the query considers another *firm* is better placed to provide a response (for example due to that other *firm* having been responsible for producing the information to which the query

relates), it should take all reasonable steps to refer the query to that other *firm* and reasonably support the *leaseholder* in obtaining a response.

(4) Where *a firm* receives a query from a *leaseholder*, it should not create or rely on unreasonable barriers to responding to that query. In particular, where the *leaseholder* asserts that it has not received the information in *ICOBS* 6A.7.3R, *ICOBS* 6A.7.3R(3) requires the *firm* to provide this information proactively, and not wait to be asked for it or refer the *leaseholder* to the *customer*. This includes providing the information to the *leaseholder* regardless of whether a *customer* is purporting to withhold consent to the required information being passed to a *leaseholder*.

Production and provision of information: Responsibilities of insurers and insurance intermediaries

6A.7.18 R Where a *firm* is responsible for producing information required by the *rules* in *ICOBS* 6A.7 as set out in *ICOBS* 6A.7.19R but is not in contact with the *customer* (or its representative), it must provide that information to the relevant *insurance intermediary* in contact with the *customer*.

6A.7.19 R The table in this *rule* sets out the responsibilities of *insurers* and *intermediaries* for producing and providing to a *customer* the information required by this section in order to meet *ICOBS* 6A.7.3R(1).

Requirement	Item of disclosure	Production	Providing to customer
ICOBS 6A.7.3R(2)(a)	Summary of the cover	*Insurer*	*Firm* in contact with *customer*
ICOBS 6A.7.3R(2)(b)	Pricing information	*Insurer*	*Firm* in contact with *customer*
ICOBS 6A.7.3R(2)(c)	Remuneration information	Any *insurance intermediary* involved with the distribution	*Firm* in contact with *customer*
ICOBS 6A.7.3R(2)(d)	Placing and history information	*Insurance intermediary* in contact with the *customer*	*Firm* in contact with *customer*
ICOBS 6A.7.3R(2)(e)	Conflicts of interest information	*Insurance intermediary*	*Firm* in contact with *customer*

Responsibilities of insurers and insurance intermediaries in certain situations

6A.7.20 R The table in this *rule* modifies the *rule* in *ICOBS* 6A.7.19R on the responsibilities of *insurers* and *intermediaries* for producing and providing to a *customer* the information required by this section.

	Situation	Insurance intermediary's responsibility	Insurer's responsibility
(1)	*Insurance intermediary* operates from an establishment in the *United Kingdom* or Gibraltar *Insurer* or *insurance undertaking* does not operate from an establishment in the *United Kingdom* or Gibraltar	Production and providing	None
(2)	*Insurance intermediary* does not operate from an establishment in the *United Kingdom* or Gibraltar or, where the distribution is carried on by a person that is not *authorised*, or an *authorised professional firm* carrying on *non-mainstream regulated activities* *Insurer* operates from an establishment in the *United Kingdom* or Gibraltar	None	Production and providing
(3)	*Insurance intermediary* does not operate from an establishment in the *United Kingdom* or Gibraltar *Insurer or insurance undertaking* does not operate from an establishment in the *United Kingdom* or Gibraltar	The *firm* with the contact with the *customer* has the responsibility for production and/or provision	The *firm* with the contact with the *customer* has the responsibility for production and/or provision

Annex D

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Product Intervention and Product Governance sourcebook (PROD)

…

1.4 Application of PROD 4

…

1.4.3 R *PROD* 4 does not apply in relation to an insurance product that is:

(1) a *contract of large risks* where the insurance product meets the conditions in *PROD* 1.4.-3AR, or

(2) a *reinsurance contract.*

[**Note**: article 25(4) of the *IDD*]

1.4.-3A R The conditions in *PROD* 1.4.3R(1) are that the insurance product is used exclusively for *effecting contracts of large risks* where there are no:

(1) *policyholder(s)*; or

(2) (where relevant) *policy stakeholders* including, in relation to a *multi-occupancy building insurance contract*, any *leaseholder*,

who are natural persons acting for purposes outside of their trade, business or profession.

…

1.4.12 G …

Meaning of ‘customer’ in PROD 4 for non-investment insurance contracts: consideration of policyholders, and policy stakeholders (including leaseholders)

1.4.13 G *Firms* are reminded that in *PROD* 4, in relation to *non-investment insurance contracts*, as the context requires, ‘customer’ includes:

(1) a *person* who is a *policyholder*, or a prospective *policyholder*, whether or not they make the arrangements preparatory to the conclusion of the *contract of insurance*; and

(2) a *policy stakeholder* including a *leaseholder*.

1.4.14 G (1) For a *non-investment insurance product* that is or will be used to effect a *multi-occupancy building insurance contract*, when meeting the requirements under *PROD* 4, including in particular whether the product provides fair value for the purposes of *PROD* 4.2.14AR, a *firm* should consider the interests of:

(a) any *policyholder* making the arrangements preparatory to the conclusion of the *contract of insurance*;

(b) the *freeholder* and any other *policyholder* of the product; and

(c) *leaseholders*.

…

4 Product governance: IDD and pathway investments

…

4.2 Manufacture of insurance products

…

Fair value for non-investment insurance products: meaning of value

…

4.2.14FA R …

(2) …

(3) A *non-investment insurance product* that is used for effecting a *multi-occupancy building insurance contract* is excluded from (1).

…

4.3 Distribution of insurance products

…

4.3.6EA R …

(2) …

(3) A *non-investment insurance product* that is used for effecting a *multi-occupancy building insurance contract* is excluded from (1).

…

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12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
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