FINANCIAL CONDUCT AUTHORITY

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28 January 2022

Dear CEO

Insurance costs for multi-occupancy buildings

You will know of the continuing concerns of parliamentarians, consumer groups and others about the rising cost of insurance for apartment blocks and similar multi-occupancy buildings, with significantly increased costs being passed on to residential leaseholders and other affected property owners. This is contributing to financial difficulties for many of them. Financial difficulties can clearly be a key indicator of vulnerability.

Last year we published webpages highlighting steps leaseholders could take to challenge increases in the cost of their buildings insurance. We also underlined to firms that we expect you to treat customers fairly and act in their best interests.

We know that a key aspect of the price of policies will be the insurer's assessment of the risk, which may be affected by hazards like unsafe cladding. However, there are other elements, such as distribution costs, which will also impact the price. We want to ensure products provide fair value and premiums fairly and accurately reflect risk.

What we expect from you as part of the wider industry

Given the widespread concerns about the difficulties for leaseholders and others, we expect firms to consider what actions they can take to help; both individually and as an industry. We will support the industry in developing market-led solutions which may improve the situation for those impacted.

While firms often do not treat leaseholders as the customer, it is leaseholders who are likely to pay for the policy and benefit from it. When determining what is fair value, what is in the best interests of customers and what meets their needs, firms should take into account the freehold property owner and the freehold property owner's duties to their leaseholders. This is especially important as most leaseholders pay for buildings insurance through service charges and cannot shop around to find the best deals. While many freehold property owners will be commercial customers, firms should consider that freeholders owe obligations to leaseholders who are likely to be retail consumers.

Our rules require insurance manufacturers to ensure their products meet the objectives and characteristics of the target market and provide fair value. This includes the price having a fair relationship to the benefits provided. We expect your firm to consider all aspects of the price, including the pricing model and costs of providing the product. To demonstrate that products are providing fair value, firms should make sure that their pricing models are based on a reasonable assessment of the risk posed and information on likely costs. They should also keep this assessment under review.

Distributors need to ensure they do not take action that undermines the aim of providing fair value of products, such as commission which doesn't reasonably reflect the costs incurred or the benefits provided. Distributors must not be influenced to act against customers' best interests by commission or other remuneration, for example proposing a policy based on higher commission levels where the policy is not otherwise in a customer's best interests. Where commission is based on a fixed percentage of the premium, significantly increased premiums may result in high commission amounts which do not reasonably reflect the costs incurred or the benefits provided by the intermediary or others in the chain.

These obligations apply to firms involved in the manufacture and distribution of insurance products. This includes insurers and intermediaries such as brokers and property managers we authorise. Some of these rules came into force in October, and we expect firms to be actively reviewing their products now to ensure they are providing fair value.

What we are doing to help

We are working closely with Government on this issue. To help inform us we intend to collect information to examine firms' approach to pricing for multi-occupancy buildings. We want to better understand the impact fire hazards and other factors are having on prices. As well as collecting data, we intend to discuss with firms their approach to pricing multi-occupancy buildings.

We also intend to consider the impact of non-risk price elements such as commissions and other distribution costs. This will help us decide whether further interventions may be required to make sure that the non-risk elements of prices are providing fair value and are delivering the intended outcomes of our rules.

Where we see insurers, brokers, or regulated property managers not fulfilling their regulatory responsibilities we will use our powers to intervene.

Yours faithfully

Sheldon Mills
Executive Director, Consumers and Competition