FINANCIAL CONDUCT AUTHORITY

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May 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

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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; a key indicator of vulnerability.

You will also be aware that last year we published webpages highlighting what steps individuals could take to challenge increases in the cost of buildings insurance and highlighting to firms our expectations that they will treat customers fairly.

What we expect from you

Firms must ensure they have adequate resources, including knowledge and expertise in place, to appropriately service the customers they agree to work for.

Our rules are intended to ensure customers receive fair value from the price they pay for their insurance. Insurance intermediaries must ensure they do not adversely impact the value of products they offer. When considering fair value, firms should consider the freehold property owner and the freehold property owner's duties to leaseholders and others. 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 take into account the obligations that freeholders have towards leaseholders, who are likely to be retail consumers.

Our rules require insurance intermediaries (such as brokers and property managers) to ensure they do not adversely impact the value of products they are offering. A key part of this is ensuring the commission they receive has a reasonable relationship to the benefits their services provide and the costs they incur in providing services.

Where commission is based on a percentage of the premium, firms should be aware that higher premiums may lead to increases in the amount of commission which are not justified by the benefits provided or by higher costs incurred.

Intermediaries must also not be influenced to act against the customers' best interests by commission or other remuneration, for example by proposing a policy based on higher commission levels where another policy may better meet the customer's needs. Where brokers offer products from a range of insurers, we expect them to consider which available products meet the customer's needs. This may require approaching multiple insurers to establish which product best meets their needs. This expectation applies to renewals as well as to new business.

Finally, intermediaries must provide clear information on the nature and type of remuneration they receive. If the customer requests further details (such as the amount of commission) this should be provided. However, firms must not use disclosure as a means of managing conflicts of interests or of ensuring products are fair value. Where remuneration is adversely impacting the value of a product, or leading to conflicts of interests, the remuneration arrangements must be changed.

We remind firms that these rules apply both to remuneration they receive and also to remuneration they offer to other firms in the distribution chain, such as property managers (including those who are exempt from FCA authorisation).

Steps you should take if acting under delegated authority

When presented with risks, we recognise that underwriters are faced with complex and difficult judgement calls. However, we do not expect the underwriting decision making to be influenced by proximity to expiry. Pricing should be based on a well-governed and documented pricing strategy to ensure the product retains its intended value and conflicts of interest are managed.

Steps you should take when intermediating

Risks presented in a timely and transparent manner are more likely to receive support from underwriters. The ability to present a risk with full and confident disclosure of fire safety risks (including fire safety and plans to remediate those risks) is key to successfully placing insurance.

The discovery of combustible cladding and other fire safety issues is relevant to fair presentation when placing risks. Managing placement activity to ensure that risks are clearly and effectively presented in good time before expiry is a key function that every intermediary must perform. Terms should then be presented to the customer in good time.

What we are doing to help

To help inform our approach to this issue, we intend to collect information on firms' pricing for multi-occupancy buildings. As part of this, we will be collecting information on commissions and other distribution costs, as well as the role of brokers and others in the distribution chain.

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