

Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities
Minister for Intergovernmental Relations
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

28 January 2022

Our ref: 20220120 ECU A

Dear Secretary of State,

Thank you for your letter of 28 January requesting we review the availability and cost of buildings insurance for multiple-occupancy residential buildings, in consultation with the Competition and Markets Authority (CMA).

You have shared concerns about the rising costs faced by residential leaseholders and other affected property owners across the United Kingdom in the wake of the Grenfell tragedy. Although insurance premiums are just one aspect of this, we recognise that the charges may be contributing to financial pressures for many.

A key factor in the price of insurance policies will be insurers' assessment of the risk. We consider this has been affected by factors such as unsafe cladding (including the estimated time it will take to mitigate this risk), and other reported defects with large multi-occupancy buildings such as water leakage. In particular, there is increased understanding of the likely scale of claims associated with large multi-occupancy buildings affected by building defects. For example, where in the past a fire event may have been viewed as a risk to only a single unit or its adjacent properties, it is now commonly understood that unsafe building practices may result in significantly greater damage, more associated claims events, and a risk of more tragic events.

While accurate, risk-based pricing is fundamental to an insurer's obligations to maintain solvency, there are other elements, such as distribution costs, which also affect price. We therefore want to ensure that products provide fair value, and premiums fairly and accurately reflect risk.

We recognise it is imperative that the market is able to continue to serve these consumers and further work is needed to assess the cause of any restriction in coverage available for multi-occupancy buildings.

We share your concern that there is a lack of data, and agree that this creates challenges, in terms of understanding the underlying causes of year-on-year price increases.

Indeed, we have recently been monitoring rising premiums in the building insurance sector, and have gathered data from firms to help facilitate our engagement on the causes of these reported increases. We have therefore today formally written to the CEOs of insurers and insurance brokers in this market to:

- set our expectations for firms to consider what actions they can take to help leaseholders, whether individually or by identifying collective solutions as an industry;
- remind firms of their obligations under our rules, including to consider the costs borne by leaseholders when determining whether a product is fair value. This is especially important as most leaseholders pay for buildings insurance through service charges, and cannot shop around to find the best deals;
- outline our plans to collect information to examine firms' approach to pricing for multi-occupancy buildings. We want to better understand the impact that fire hazards and other factors are having on prices, and identify if there are any areas where price increases may not be justified. As well as collecting data, we will discuss with firms their approach to pricing multi-occupancy buildings, and examine whether non-risk price elements such as commissions are driving up costs; and
- state our intention to intervene further if we identify that insurers, brokers or regulated property managers are not fulfilling their regulatory responsibilities.

We will share the findings from this work, as well as separately offer some practical recommendations. We will consult with the Competition and Markets Authority as we progress this work.

Yours sincerely,

Nikhil Rathi
Chief Executive