FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

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

29 February 2024

Dear Secretary of State,

I write with an update on our work on multi-occupancy buildings insurance ('MOBI'), which has been a concern for leaseholders. Over the past year, we have made progress on the issues within our jurisdiction and worked with your Department and other stakeholders on those outside the remit set for us by Parliament.

Enhanced leaseholder rights and protections

We progressed our consultation on enhanced protections for leaseholders at speed. We considered the 101 responses, the majority of these from affected leaseholders, before confirming final rules on 29 September.

The new rules set out in our policy statement require insurance firms to:

- act honestly, fairly and professionally in leaseholders' best interests
- take account of leaseholders' interests when designing products
- not have in place remuneration or incentive schemes that could lead the firm to arrange, or the freeholder to take out, an insurance policy not in leaseholders' interests
- ensure their insurance policies provide fair value to leaseholders; and
- provide important information for freeholders and property managing agents to pass on to leaseholders about their policy and its pricing, including the details of any commission, and to provide this information directly to leaseholders if asked to do so.

Due to the urgency, we set a short 3-month implementation period and the rules came into effect from 31 December. We have continued to engage with industry and review correspondence from consumers and we are not aware of significant issues arising with insurance firms' implementation of these rules.

Insurer risk modelling and pricing of multi-occupancy buildings insurance

Our September 2022 report identified the increases in risk premiums charged by insurers as the most significant component of the price increases experienced by leaseholders. In this context, you asked that we scrutinise the pricing approach of the insurers underwriting these products and how this is changing as fire safety issues are remediated and considering their new obligations under our rules.

We have set out more details of our work and findings in the annex below. In summary, our work with a sample of 6 firms covering the period from 1 January 2019 to 31 August 2023 found that:

a. Insurers had not identified multi-occupancy buildings insurance as a separate product, but most could provide appropriate fair value assessments for each of their products that include multi-occupancy buildings policies.
b. In most cases these value assessments and the accompanying loss and expense ratios did not give rise to material concerns about the overall value of these products.
c. All firms need to do more work to improve their management information and analysis so that they can consider loss ratios, expense ratios and profitability in relation to multi-occupancy buildings and the subset of buildings affected by material fire safety issues.
d. Most of the firms had actively worked to reduce levels of intermediary remuneration during the period.
e. In some areas there were outlier firms who had made less progress and where we had concerns about whether they were consistently delivering fair value or could evidence this.

Through our review we observed a variety of practices. We will be raising concerns with firms that do not appear to be meeting required standards and, where necessary, we will use the regulatory tools at our disposal where progress is insufficient.

We will continue to scrutinise how firms are assessing and evidencing fair value, for customers and the leaseholders paying for buildings insurance. We expect firms to improve the data they use to evidence compliance with our fair value rules, including better recording and analysis of loss ratios, remuneration levels and profitability, specifically for multi-occupancy buildings insurance and buildings with material fire safety issues. We are assessing how best to achieve this using our regulatory tools.

Adoption of the ABI/BIBA industry data standards and data availability

Further to the data issues we encountered in our initial review and the recommendation set out in our September 2022 report, the ABI and BIBA published a common data code in February 2023, with an implementation date of 28 May 2023.

Our review of insurer pricing found that the availability of data had improved compared to our previous review, and the most recent data indicated that firms appear to be largely complying with the new industry data code.

Despite this, when we requested more granular data accounting for different building sizes, risk profiles, and portfolios of more than four buildings, most firms experienced reporting challenges. As set out above and in the annex below, firms are still working to produce data and analysis that is specific to multi-occupancy buildings insurance and buildings affected by fire safety issues.

Therefore, while we welcome the improvements firms have made in data recording and steps taken to comply with the ABI and BIBA industry code, we believe there is still significant work for many firms to undertake, most notably in how they record, analyse and report this data.

Insurance intermediaries, remuneration and commission

We set out in our April 2023 report on broker remuneration that we would take appropriate action using a range of regulatory tools for outliers within the sample of intermediaries. The actions we have taken include the use of s166 skilled person reports to identify issues and make recommendations for urgent remedial actions at outlier firms. We will hold these firms and senior managers to account for implementing these improvements to the required timescales. We have also required senior management of several firms to make attestations regarding the urgent steps they are taking to address issues in relation to fair value and compliance with our product governance rules. From 31 December 2023, our rules specifically include the obligation for firms to deliver fair value to leaseholders, and we will not hesitate to use additional regulatory tools where firms fail to comply with these rules.

In addition to our actions, we note and support the actions of DLUHC, including bringing forward primary legislation to restrict the costs that can be passed on to leaseholders. We will continue to liaise with and support your officials as they work to develop the accompanying secondary legislation. We also note your Department's work in creating the broker pledge, covering buildings over 11 metres or four storeys in heighted, which are affected by fire safety issues.

ABI designed reinsurance scheme

In our September 2022 report we recommended that the ABI work with Government and industry to create an effective risk pooling arrangement to share the risks of properties affected by flammable cladding and other material fire safety risks. We have set out the details of the progress made on this scheme in the annex below.

I hope that you find this update helpful and can assure you that we will continue to focus on this important issue and on ensuring that the insurance sector delivers fair outcomes for all leaseholders bearing the costs of multi-occupancy buildings insurance. We will also continue our regular engagements with officials in your Department, as well as with other key stakeholders including the ABI and BIBA.

Yours sincerely

Sheldon Mills
Executive Director – Consumers and Competition

Annex 1 – Additional information

Insurers and multi-occupancy buildings insurance pricing

We have revisited our findings from our September 2022 report as well as using new data and information requested from a sample of five insurers and one MGA. The firms were identified as those who underwrite most of this insurance by value and number of policies, including for fire safety affected and other more complex risks. Their aggregate gross written premium for multi-occupancy buildings insurance increased from £298m in 2019 to £383m in 2020, £454m in 2021 and £479m in 2022.

Our data request covered the period from 1 January 2019 to 31 August 2023. The information request focused on firms' approaches to pricing insurance for multi-occupancy buildings and how they assess whether customers (and the leaseholders bearing the cost of the insurance) receive fair value. Subsequently we analysed their pricing strategies, governance, oversight and controls, and reviewed their fair value assessments. This included considering whether and how their pricing approach reflected the remediation of cladding and other material fire safety issues, where this remediation work had been done. We also considered which committees, fora and Senior Manager(s) oversee, monitor, and control their risk appetite, decision making and pricing approach in this area. We then followed up this information request with additional questions to clarify our understanding of the information received.

Our key findings from this work are as follows:

a. The increase in premiums across the period from 2019 to 2021 for the insurers included in this work was consistent with that presented in our previous report, which showed a 125% rise in mean annual gross written premium across the period from 2016 to 2021. We then saw reduced increases in premium levels in 2022 and into the first half of 2023, that were in line with wider industry average levels of inflation across this period.

b. Most of the insurers had made material progress in being able to assess and demonstrate fair value at a product level. None of the insurers had identified multi-occupancy buildings insurance as a separate product, so the value assessments had been made at product level for products such as commercial property, blocks of flats and rental property.

c. Most of the insurers were able to provide loss ratios, expense ratios and profitability at the product level which did not give rise to material concerns about the overall value of these products. However, all firms still need to do more work to specifically consider loss ratios, expense ratios and profitability in relation to multi-occupancy buildings insurance and the subset of buildings affected by fire safety issues.

d. Most of the insurers had made significant progress in improving their management information on this product and its performance for multi-occupancy buildings and the leaseholders who bear the cost. They understood the need to continue to improve their data and management information and were working to do so.

e. Most of the insurers had been actively working to reduce commissions and other remuneration in relation to multi-occupancy buildings insurance, and this was evidenced by the data submitted. Five of the six firms had capped commission rates with some firms implementing lower caps for buildings with fire safety issues. Some firms had also changed their remuneration approach for these risks by seeking to agree a lower fee-based arrangement instead of a commission.

f. All the five insurers included in the work had introduced policies and pricing approaches designed to ensure that where buildings were remediated, and fire safety risks addressed (either in full or in part) that this was promptly reflected in the pricing of these risks.

g. In some areas, there was an outlier firm or outlier firms who had made less progress in assessing and demonstrating the value for products including multi-occupancy buildings insurance policies, and where we saw some issues in the data received that could be indicators of poorer value.

ABI designed reinsurance scheme

The ABI has been working to take forward the recommendation in our September 2022 report alongside McGill & Partners, a specialist reinsurance broker. The commercial reinsurance scheme they are seeking to implement is intended to provide additional reinsurance capacity for fire safety affected properties, pooling the risks relating to these properties and removing the need to use more complex and expensive bespoke placements for many of these buildings. Additionally, the primary insurers involved have indicated that the provision of this reinsurance capacity should enable them to deploy more of their capacity to this product by allowing them to diversify their risks.

The launch of the scheme was originally planned for Summer 2023 but has taken longer than was anticipated due to the complexities of securing appropriate capacity to reinsure the risks involved and ensuring that the scheme will respond appropriately to the needs of the insurers and therefore of the underlying customers and leaseholders. We remain positive and supportive of this ABI-led work and believe that the launch of this scheme will improve the position and reduce insurance costs for many of the buildings and leaseholders worst affected by fire safety issues. The importance of this scheme was also noted by all the insurers included within our more recent review.

Once launched, the ABI will introduce a suite of data to monitor and evidence the impact and effectiveness of the scheme. The FCA will engage with the ABI and relevant firms to understand the scheme and its impact on the price and availability of multi-occupancy buildings insurance.