



Insurance for multi-occupancy buildings – impact of FCA review

DELIVERED BY DIANE JENKINS ACII, CHARTERED INSURANCE BROKER

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Introduction / housekeeping

Welcome and thank you!

60 minutes webinar format – muted and video off. Polls, Chat, Q&A

Diane Jenkins

- Background in Insurance Broking Sector – technical programme design, M&A due diligence, BI reviews, cyber insurance
- Former chair and education secretary of London Business Interruption Association



Nick Thomas & Associates

- Up to the minute training solutions addressing the challenges of the modern insurance professional
- Technical insurance; sales, communication and soft skills; customer service; management and leadership; performance, resilience and wellbeing training

Objectives

At the end of the session delegates will:

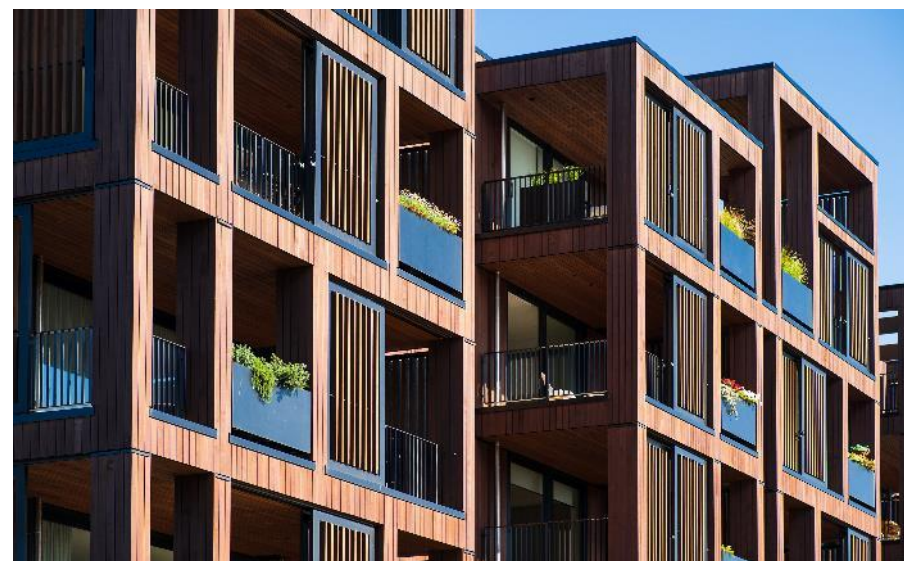
- know the areas included by the FCA review
- understand the regulatory changes being implemented by the FCA
- consider potential changes to insuring and broking of multi-occupancy buildings

Background

Secretary of State for Levelling-Up and Housing Communities asked

- why has insurance cost for leaseholders in multi occupancy increased so much?
- between 2016 and 2021 premium rates more than doubled

FCA began a review in January 2022
– reported in September 2022



Background

FCA report in September 2022 found:

- significant reduction in insurance available (fewer insurers willing to provide cover)
- leaseholders are not customers in FCA rules – so are not automatically protected - the needs and interests of leaseholders not being considered by firms at product design
- there is a lack of transparency /disclosure for leaseholders – makes it hard for them to challenge costs
- policies selection based on remuneration paid to freeholders not product quality for leaseholders
- some broker commissions are high
- insurers not making excessive profits



Background

Specific concern about high commissions paid to brokers and managing agents

Second report issued April 2023

- levels of remuneration rose by nearly 40% between 2019 and 2022
- commission rates at least 30% and up to 62%
- commissions often shared with freeholder or managing agents

Government suggested a ban on the payment or sharing of insurance commissions with property managing agents, landlords and freeholders



“most of the brokers in our sample did not give us adequate evidence to show that they deliver fair value consistently for multi-occupancy buildings products”

What is changing?

FCA found lack of data was an issue

ABI/BIBA 28 May 2023 – voluntary Code of Practice to collect risk data

- applies to property buildings insurance which covers multi-occupancy buildings over four storeys or 11 metres in height affected by combustible cladding or other material fire risk issues
- established a common code for the core pieces of risk information to be systematically collected and recorded



What is changing?

FCA stated to DLUHC they would

- amend existing rules so that firms are required to ensure products are designed to meet the needs of leaseholders and provide fair value
- introduce requirements to provide enhanced disclosure to leaseholders
- prohibit remuneration practices which conflict with leaseholders' interests



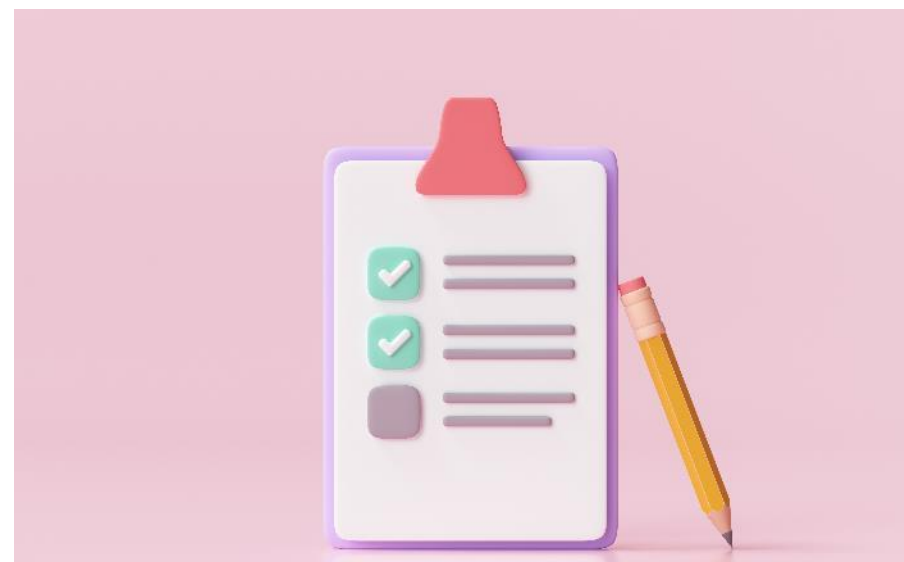
What is changing

Consultation on rule changes closed June 2023

- new FCA rules issued 29 Sept 2023 via changes to ICOBS/ SYSC
- new rules apply to residential leaseholders in all multi-occupancy buildings and does not include commercial leaseholders
- three months for firms to comply

Also recommended:

- ABI creates a risk pooling solution
- BIBA involved to limit commission cost



What is changing

ICOBS change - Definition of 'customers' amended

- Policy stakeholders
 - a person who “has a contractual or statutory obligation to pay for a part or all of the insurance premium, and, has an interest in or benefits from the subject matter of the insurance
 - policy stakeholders only include natural persons acting outside of their trade or profession regarding the insurance
- Not retail customers (so not included in Consumer Duty rules)



What is changing?

Product approval process

- must consider 'policy stakeholders' (leaseholders)
- conflict of interest reviews – must take into account interest of leaseholders
- products must be consistent with the interests of and provide fair value to leaseholders as well as the freeholder

Will apply to all policies where policy stakeholders identified (residential leaseholders)

May include other policies where those paying for insurance meet definition of policy stakeholder

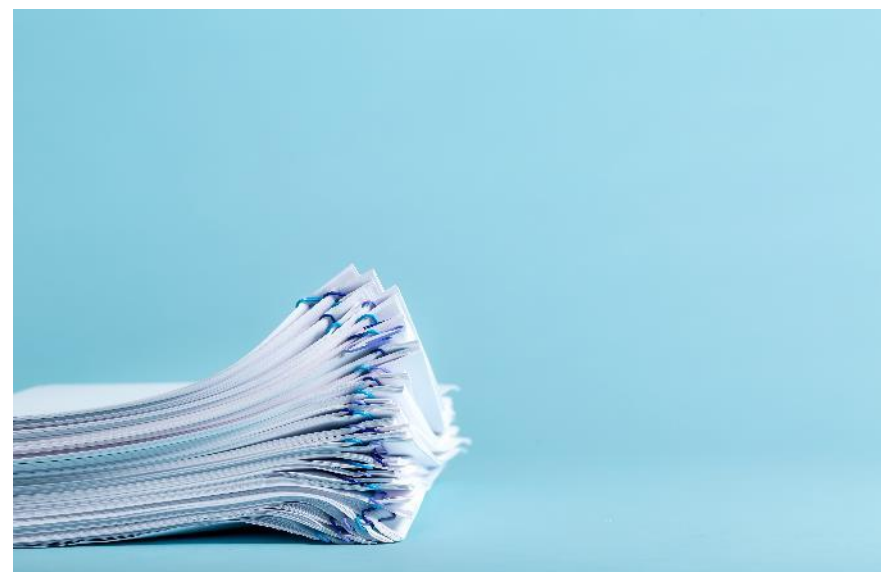
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What is changing?

Disclosure for residential leaseholders should include

- a policy summary (insurers)
- clear pricing information - how the policy premium is made up (insurers)
- the total remuneration including commission paid to brokers, freeholders and managing agents - including contingent /profit shares paid after contract concluded (broker)
- number of alternative quotes/why policy chosen (broker)
- potential conflicts of interest (both)



ICOBS 6A.7.

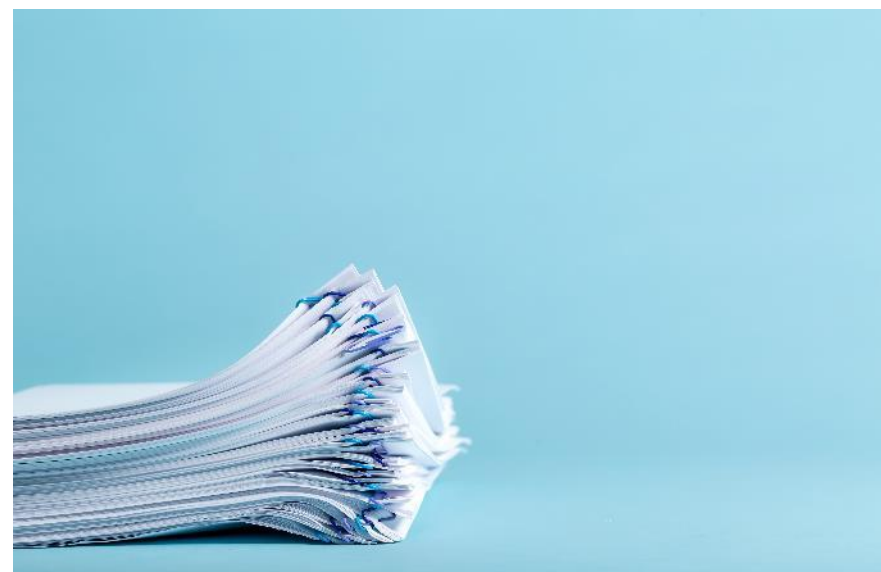
What is changing?

Information should be provided to freeholder to pass onto leaseholders
BUT

- permission of freeholders to provide information to leaseholders will not be required

Prompt disclosure after the conclusion of the contract

Must be clear and easy to understand



Implications for brokers

Brokers will need to

- identify ‘policy stakeholders’
- demonstrate fair value provided to policy stakeholders – will lead to reduction in broker commissions
- decide how disclosure to policy stakeholders be made if freeholder does not provide information
- make/demonstrate compliance changes/training



“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.”

Implications for brokers

Sharing remuneration with freeholders and property managing agents allowed only

- where no conflict of interest, and
- fair to the leaseholders

NB Government may still take action to ban sharing of commissions



Implications for insurers

Identify policies where there are policy stakeholders

Review and amend where necessary

- how policy stakeholders' best interests are captured in product development
- target market definition
- product testing and fair value assessments.
- commission levels paid – do they provide fair value to policy stakeholders

Consider how to meet disclosure requirements

- summary of policy
- pricing information at a per building level (if possible)

Monitor outcomes (FCA will follow-up)



Objectives Revisited

By the end of this session delegates will:

- know the areas included by the FCA review
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Thank you! Questions?

Contact:

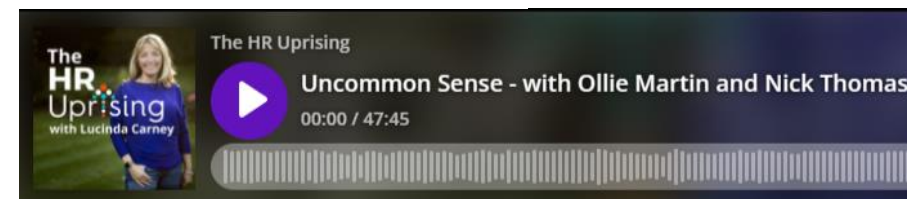
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'Up to the minute training solutions addressing the challenges of the modern insurance professional'

The logo for HRUprising, with 'HR' in purple and 'Uprising' in a lighter purple, where the 'i' is replaced by a colorful dot-matrix character.

[Click here](#) to listen to Nick's latest podcast appearance on 'HR Uprising' talking about workplace performance, resilience and health