



Department for Levelling Up, Housing & Communities

Nikhil Rathi
Chief Executive
Financial Conduct Authority
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The Rt Hon Simon Clarke MP
*Secretary of State for Levelling up Housing
& Communities*

**Department for Levelling Up, Housing
and Communities**
4th Floor, Fry Building
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London SW1P 4DF

21 September 2022

Dear Nikhil,

Financial Conduct Authority's (FCA) report on the buildings insurance market for multiple-occupancy residential buildings, developed in close consultation with the Competition and Markets Authority (CMA).

Thank you for your report, dated 21 September 2022, detailing the findings of the FCA review into the building insurance market for multiple-occupancy residential buildings. The report responds to the request, from January, which was issued as result of serious concerns regarding the significant premium increases and limited coverage leaseholders have experienced, poor transparency of insurance costs and weak competition in the market.

The quality of data provided has improved the evidence base substantially but demonstrates the scale of the issues facing consumers which require urgent resolution. I share the concern expressed by my predecessors regarding the overall lack of data in the market and the information insurers are using to price premiums. It is essential that this situation improves, and I support your request of the Association of British Insurers (ABI) and the British Insurance Brokers' Association (BIBA) to create a common code for risk reporting. I ask you to press industry to improve the quality of data held by insurers and report on what action will be taken if this is not progressed satisfactorily.

You report that high commissions from insurance brokers, and a highly questionable practice of sharing commissions with freeholders and managing agents, are inflating the premiums paid by leaseholders. This feature of the market is plainly detrimental to residents, and I agree that you must review these practices as a priority. I look forward to the outcome of this investigation and your plan to tackle the questionable behaviour of commission sharing.

I am pleased to see your commitment to consult on increasing leaseholder protections. Increased regulatory action will help leaseholders to monitor and challenge the behaviour of FCA-regulated intermediaries acting on their behalf. I urge you to progress this work as quickly as possible and look forward to your update report. This should include the FCA's decisions regarding regulatory changes.

I note your requests of industry, primarily through the ABI and the BIBA, to rapidly develop an industry-led insurance pooling solution. My department has been working with the ABI and BIBA on this proposition. I expect an update from the ABI and BIBA on their final proposal during September. Given the impact on leaseholders, I expect industry to accelerate timescales on this work to reflect the importance of pooling risk in your recommendations.

You noted several recommendations for Government to take forward. I am committed to taking action against abuses, including through legislation if necessary, and my officials will provide an update in the autumn on the available options and how we will address these recommendations.

The financial pressure currently placed on leaseholders continues to be unacceptable and I want to ensure that we rectify the issues outlined in the report as a matter of urgency. I urge industry to act rapidly on the recommendations of this report, which will help to implement a competitive and fair marketplace for buildings insurance in the UK. If this engagement does not materialise, I support the FCA's recommendation of more detailed market investigation on the competitive dynamics of the industry. I request that you update me through an interim report on industry and regulatory progress for all recommendations in three months. I look forward to working closely together with the FCA and CMA on progressing this work.

I am copying this letter to the Chief Executive of the CMA and the Financial Secretary to the Treasury.

A handwritten signature in black ink that reads "Simon Clarke". The signature is written in a cursive style with a long horizontal stroke underneath.

Rt Hon Simon Clarke MP
Secretary of State for Levelling Up, Housing & Communities