Permitted Insurance Payment

Lead department	Ministry of Housing, Communities and Local Government
Summary of proposal	Currently, commission earned on buildings insurance for leasehold properties is shared between brokers, freeholders and property managing agents. The commission is recovered through charges to leaseholders. The proposal would prohibit freeholders and managing agents from receiving a share of the commission and recovering it from leaseholders. The parties would instead recover a transparent permitted insurance payment that reflects legitimate work undertaken, and be subject to requirements concerning fairness, leaseholders' best interests, conflicts of interest and periodic market testing.
Submission type	Impact Assessment – submitted 12 August 2026
Legislation type	Secondary
Implementation date	12 months after the SI is made (anticipated)
RPC reference	RPC-MHCLG-26182-IA-(1)
Date of issue	23 September 2026

RPC opinion

Rating	RPC opinion
Fit for purpose	The IA provides a rationale for addressing misaligned incentives in the arranging of building insurance for leaseholders. The IA provides qualitative analysis to support the principles-based permitted insurance payment as the preferred approach. The assessment of small and micro businesses is sufficient. The IA quantifies familiarisation, implementation, and compliance costs. The main benefit, a transfer to leaseholders where existing commission exceeds efficient service costs incurred by freeholders and property managing agents, is unquantified. The breakeven analysis illustrates the scale of savings required to offset quantified costs. The IA would benefit from exploring a wider range of options, particularly alternative designs for the permitted payment. The IA should be more explicit about the different tax treatment of the options.

RPC summary

Category	Quality	RPC comments
Rationale	**Green**	The IA provides a clear account of the principal-agent problem and information asymmetry affecting leaseholders. Evidence from the Financial Conduct Authority, consultation responses and a survey supports the case that commission sharing and recovery through service charges to leaseholders can create opaque charges and misaligned incentives. The objectives are relevant, though the intended outcomes and timescales should be expressed more precisely.
Identification of options, including Small and Micro business assessment (SaMBA)	**Green**	The IA considers the counterfactual and different regulatory approaches. The IA would benefit from exploring a wider range of options, particularly alternative designs for the permitted payment. The SaMBA explains why exemption would undermine the policy. The IA should consider whether in-house brokerage could disadvantage smaller managing agents.
Justification for preferred way forward	**Green**	The comparative assessment supports the preferred permitted insurance payment approach, and the IA quantifies administrative and compliance costs. The principal benefit, a transfer to leaseholders, is unquantified; breakeven values illustrate the savings needed to offset costs. The IA should reflect the different tax treatment of the remuneration options.
Regulatory Scorecard	**Satisfactory**	The scorecard covers business, household, distributional and wider impacts and reports the business Net Present Value and Equivalent Annual Net Direct Cost to Business (EANDCB). It could expand the assessment of competition and market structure.
Monitoring and evaluation	**Weak**	The IA identifies process, impact and value-for-money evaluation, potential indicators, evidence sources and unintended consequences. It should include firmer commitments on timing, responsibilities and baseline evidence and, critically, an estimate of the magnitude of benefits, without which monitoring cannot establish whether the policy is working.

Summary of proposal

The Leasehold and Freehold Reform Act 2024 (LFRA) gives the government new powers to address concerns about the cost and transparency of building insurance remuneration for landlords (freeholders) and property managing agents, particularly percentage-based commission being charged to leaseholders.

This secondary legislation will use these powers to prevent brokers from sharing commission with freeholders and property managing agents, and to require those parties to recover the costs of arranging and managing building insurance through 'permitted insurance payments'.

The preferred option would prevent brokers' commission from being shared with freeholders and property managing agents at leaseholders' expense. Freeholders and managing agents would instead be able to charge directly for legitimate work, provided the payment is fair, reflects the work undertaken, takes account of leaseholders' best interests and is not calculated as a proportion of the insurance premium. They would be required to manage conflicts of interest and take reasonable steps to test the insurance market at least once every three years. Leaseholders could challenge excluded costs through the First-tier Tribunal.

Rationale

Problem under consideration

The IA provides a clear account of the leasehold building insurance market. Leaseholders commonly bear building insurance costs through service charges, but have limited control over the selection of insurance or associated intermediaries. Freeholders and property managing agents possess more information about insurance products and charges, and may receive remuneration linked to the premium. The IA explains how these arrangements create information asymmetry and a principal-agent problem, because the party choosing or arranging the insurance may have an incentive to maximise remuneration, while leaseholders bear the cost. The IA supports this account with FCA findings, consultation evidence and a departmental survey. It is transparent that the survey was self-selected and available FCA evidence does not provide a representative basis for estimating remuneration across buildings below 11 metres.

70 per cent of freeholder and managing agent respondents to the MHCLG Buildings Insurance Commissions Questionnaire received a share of insurance commission, 27 per cent of leaseholder respondents to the consultation were aware of payments received by their freeholder or managing agent, and FCA evidence found commission-sharing in the multi-occupancy building insurance market.

Argument for intervention

The IA explains that existing FCA requirements do not provide complete regulatory coverage of the parties addressed by the proposal. The FCA does not generally regulate freeholders arranging insurance for their buildings, and regulatory coverage of property managing agents is less comprehensive than that applying to brokers and insurers. The IA explains that existing leaseholder challenge mechanisms do not remove the underlying misaligned incentive associated with commissions based on a percentage of the insurance premium.

The IA recognises that the intervention does not guarantee lower premiums or charges for all leaseholders. The effect will depend on current commission levels, the replacement payment, behavioural responses and the different tax treatment of the two remuneration structures.

Objectives and theory of change

The IA sets four objectives: ensuring that charges are transparent, justified and fair; requiring leaseholders' best interests to be considered; managing conflicts of interest; and requiring reasonable steps to test and review the insurance market. There is overlap between the second and third objectives which could be better articulated. These objectives map onto the information asymmetry and misaligned incentives identified in the rationale. However, the description of the objectives as time-bound relies on behavioural changes being observable during the "initial years" after commencement and does not specify when each objective will be achieved. The IA should state a measurable outcome linked to each objective.

Identification of options including SaMBA

Identification of longlist of options

The IA considers four options: no secondary legislation; prohibiting all remuneration relating to arranging insurance for freeholders and property managing agents; replacing commission with a set fee, tariff or maximum cap; and the preferred principles-based permitted insurance payment. The options are assessed against the policy objectives and Green Book critical success factors.

The long-list is relatively narrow. The IA does not test more nuanced variants - in particular, alternative designs for setting the permitted payment, such as differing bases for calculation, caps or benchmarking arrangements. The IA should set out the alternative designs for the payment considered and why they were not pursued.

Consideration of alternatives to regulation

The counterfactual incorporates the existing FCA framework, professional regulation and industry practice. The IA explains why these arrangements do not cover all relevant freeholders and property managing agents and would therefore allow the identified incentive and transparency problems to persist. It notes that the decision to legislate was established by the Leasehold and Freehold Reform Act 2024, with the present appraisal focused on alternative ways of implementing its powers through secondary legislation. This provides a reasonable basis for not carrying reliance on existing regulatory arrangements forward as the preferred approach.

Justification for the shortlisted options

The qualitative analysis explains why some options perform less well against the objectives and critical success factors, and are therefore discarded. Prohibiting all remuneration is a more restrictive approach, while the tariff or cap is a more prescriptive mechanism for controlling charges. The preferred option is a flexible, principles-based approach designed to harness increased transparency. The IA explains that a total prohibition could displace costs, weaken incentives to undertake necessary work or transfer functions inefficiently to brokers. It explains that a tariff or cap may not reflect the variation in building types, risks and work required, and could either prevent recovery of efficient costs or become a default maximum charge.

SaMBA and medium-sized business assessment

The IA identifies that micro, small and medium-sized freeholders and managing agents will be affected. It explains that a size-based exemption would permit commission-sharing to continue for leaseholders whose building is managed or owned by an exempt business, undermining the objective of applying the new remuneration consistently. The IA identifies mitigations, including principles-based requirements, flexible compliance evidence, use of existing systems, avoidance of prescribed time-recording, implementation guidance and a transition period.

The IA does not consider whether the measure may encourage freeholders or managing agents to bring brokerage functions in-house to retain margin. The IA should address how the permitted payment applies across a corporate group, and whether such vertical integration would place smaller agents at a competitive disadvantage.

Justification for the preferred way forward

Identifying impacts and scale

The IA identifies the principal affected groups and estimates that the policy will affect leaseholders across approximately 2.05 million dwellings in 592,000 buildings, between 95,000 and 242,000 freeholders, and between 26 and 34 insurance brokers. It quantifies familiarisation, implementation and ongoing compliance costs over a ten-year appraisal period, using 2025 prices and a 2026 present-value base year. The central Business NPV is -£33 million and EANDCB is £3.8 million. The IA should present its key figures — commission levels, the costs of the measure and the breakeven values — in a single summary table.

To the extent that a reduction in remuneration produces an equivalent saving for leaseholders, this is principally a transfer from freeholders or property managing agents to leaseholders (households) rather than an increase in unweighted social welfare.

The most important potential benefit is lower insurance-related charges where current remuneration exceeds the efficient cost of the work undertaken. The IA does not quantify this because the available evidence does not cover commission income reliably across the wider market, particularly for buildings below 11 metres. It instead presents breakeven values, showing that average annual savings of £14 per affected leasehold household would generate sufficient additional distributional welfare to offset the quantified cost. This is useful contextual analysis.

The IA notes the reform replaces remuneration subject to Insurance Premium Tax at 12 per cent, with a permitted insurance payment subject to VAT at 20 per cent. Where current commissions broadly reflect the fair value of the work, this differential could leave some leaseholders paying more rather than less. The Department should draw this tax differential into the summary of the preferred option's net effect, rather than leaving it in the supporting detail.

The FCA's finding that in 39 per cent of cases brokers passed on more than half their remuneration to freeholders or managing agents - who undertake little of the insurance work - suggests a substantial part of commission does not reflect fair value, and its removal is likely to leave most leaseholders better off. The breakeven value of £14 per leaseholder against an average premium of £309 supports this. While the IA does not quantify the aggregate effect — reflecting the absence of commission data for buildings below 11 metres — the balance of evidence points to a net benefit for leaseholders, which the Department could confirm by evidencing the aggregate position, including the change in tax treatment.

Selection of the preferred option

The preferred option addresses the incentive created by commission-sharing while allowing freeholders and property managing agents to recover reasonable costs for legitimate work. It performs better than a prohibition because it preserves

remuneration for necessary activities, and better than a tariff because charges can reflect differences between buildings and services. Requirements concerning fairness, best interests, conflicts and market testing address the identified problems more than a change to the charging mechanism alone. The comparative analysis therefore provides support for selecting the preferred option.

The preferred option is justified by improved transparency and cost-reflectivity, rather than a guaranteed reduction in charges for all leaseholders. The IA should make this explicit. The preferred approach relies in part on leaseholders challenging excluded costs at the First-tier Tribunal. Given only 27 per cent of leaseholders responding to the consultation were aware of the payments their freeholder or managing agent received, the IA should test the assumption that leaseholders will identify and challenge overcharging, since the benefits depend on that route being used.

Regulatory Scorecard

Part A

The scorecard provides a clear summary of impacts on welfare, businesses and households. It identifies quantified familiarisation, implementation and ongoing compliance costs, reports the Business NPV and EANDCB, and discusses the potential transfer to leaseholders, effects on insurance selection, improved accountability, wellbeing and housing-market impacts. It includes distributional analysis based on an average welfare weight of 1.11 for owner-occupier leaseholders and notes lower-income households would receive proportionately greater welfare benefit from any reduction in charges.

The breakeven analysis establishes what would be required for distributional gains to offset quantified costs, but does not establish the probability of achieving that threshold.

Part B

The IA considers the business environment, international trade and investment, natural capital and decarbonisation. It concludes that the policy affects a relatively narrow domestic market, is not expected to create material trade barriers and has no direct environmental or decarbonisation effect. It identifies possible modest benefits to competition because insurance selection may focus more closely on value and suitability rather than remuneration.

The IA should assess proportionately whether compliance costs and changes in remuneration could affect smaller managing agents or competition between brokers and insurers. Resolving the conflict of interest created by commission should improve competition and efficiency in the provision of multi-occupancy buildings insurance. This is noted only briefly in the IA and merits fuller treatment, alongside consideration of whether the measure creates incentives for vertical integration that could affect market structure.

Monitoring and evaluation

The IA proposes process, impact and value-for-money evaluation as part of the wider leasehold and commonhold reform programme, combined with monitoring specific to the permitted insurance payment framework. It identifies potential evidence from leaseholders, contracts and service-charge demands, the First-tier Tribunal, sector bodies, RICS and the FCA. It proposes monitoring before commencement to establish current remuneration practices and implementation readiness. The framework covers charging practices, transparency, market testing, compliance costs and unintended consequences such as cost displacement, reduced service quality, increased disputes and changes in broker behaviour.

The plan's principal weakness is that, because the IA does not estimate the level of benefits expected, it provides no quantified baseline or target against which outcomes can be judged. This makes it difficult to establish whether the policy is delivering the intended reductions in charges or improvements in transparency. The IA should confirm review timing, core evaluation questions, responsibilities and minimum data arrangements and, critically, set out the expected magnitude of change, so that permitted payments and total insurance-related charges can be assessed against a pre-implementation baseline.

Regulatory Policy Committee

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