

Gove to ban insurance commissions for freeholders



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After an FCA investigation and a tribunal ruling, the Secretary of State for Levelling Up, Housing and Communities, Michael Gove has outlined plans to ban managing agents and freeholders from taking commissions when taking out buildings insurance.

The FCA report from September 2022, [which Gove ordered](#), suggested that insurance commissions make up around 30% of premiums.

Following this, Gove said in a letter to FCA CEO Nikhil Rathi on 30 January that the report confirmed his concerns “regarding large buildings insurance premium increases in multi-occupancy residential buildings, evidence of weak competition in the market and unacceptable issues faced by leaseholders around the transparency of their insurance costs.”

As a result, Gove wrote how he planned to move forward with plans to ban managing agents, landlords and freeholders from taking commissions and other payments when they take out buildings insurance.

He said: "I will take action to ban managing agents, landlords and freeholders from taking commissions and other payments when they take out buildings insurance, replacing such payments with more transparent fees.

"I will press insurance firms, managing agents, landlords and freeholders to change their practices as a matter of priority. I will also arm leaseholders with more information to enable them to better scrutinise their insurance costs."

He added that the government will also bring in further measures to make service charges more transparent and empower leaseholders who want to challenge their bills.

Canary Riverside tribunal

Just before Christmas, a tribunal found that over [£1.6m in commissions paid by leaseholders](#) to a freeholder-linked company was wrongly incurred.

In the tribunal, it was discovered that leaseholders of the Yianis Group owned Canary Riverside complex in east London had no idea about any money being paid to Westminster Management Services through Reich Insurance Brokers until an order was submitted, forcing Reich to outline any payments made.

The tribunal also stated how neither Reich, nor any Yianis Group firms managed to provide any evidence to the tribunal of a contract outlining the sharing of commission or fees or otherwise with WMS.

As a result, the tribunal found that the fees paid to WMS were 'unreasonably incurred'.

The closing remarks of the tribunal outlined a need for greater transparency in insurance fees and commission charges.

It said: "We agree about the need for greater transparency in insurance fees and commission charges. We urge the respondents to ensure compliance with these recommendations in future."

Letter to Biba

In September, the then Levelling Up Secretary, [Simon Clarke wrote to Biba CEO Steve White](#) saying the FCA report had “brought to light disturbing evidence on remuneration practices.”

He also demanded “immediate changes” from Biba and requested a plan of action for how it hopes to address broker commissions.

He said: “I would like to see immediate changes to this practice and expect a proposal from Biba setting out how you will address broker commissions and reform culture and practice within the market ahead of any further regulatory activity.”

Now, it appears that Gove is ready to move forward with plans to fully ban managing agents and freeholders from taking commissions – a measure Biba has previously suggested could have “unintended consequences”, suggesting managing agents might look to increase the service charge because they are no longer getting a slice of the commission.

In its manifesto, Biba pledged to work with members to make payments and commissions surrounding multi-occupancy buildings fairer and more compliant with FCA regulation.

It said: “The aim is for members to only make payments to third parties in this sector where they are satisfied that such payments comply with the relevant FCA fair value requirements. This includes payments to property managing agents or freeholders.”

Fairer insurance costs

Gove continued his letter to Rathi by explaining that he plans to “arm leaseholders” with better information to scrutinise their insurance costs and ensure insurance costs for leaseholders are fairer.

He said: “I will also arm leaseholders with more information to enable them to better scrutinise their insurance costs, while also ensuring that leaseholders are not subject to unjustified legal costs and that they can claim their legal costs back from their landlord.

“These steps will ensure leaseholder insurance costs are fairer, more transparent and will rebalance the legal costs regime to give

leaseholders greater confidence to challenge their costs, supporting fair value for the leaseholder.”

Branko Bjelobaba, managing director of consulting firm Branko said: “While this is good news, the devil will be in the detail, and I strongly believe leaseholders should be joint insured parties to the insurance and be able to place their own policy, as flat owners do north of the border, and across the world.”

However, he questioned the activity of insurers, who he believes should be checking to make sure broker commissions are distributed fairly.

He said: “What work have insurers already done to assess whether the commission being paid to the broker is indeed commensurate with the work they are doing, as they provide the pot of cash that has allowed this to happen?”

A spokesperson for One West India Quay Residents Association, whose building has been part of the same group policy as that of Canary Riverside, said: “In England and Wales, insurance commissions and fees data should be freely disclosed to the paying consumer homeowners before a policy is placed, not treated like a state secret. We should have control and choice, not be rendered captive consumers.

“But freeholders and managing agents shouldn’t be getting any commissions from insurance at all.”

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