

Fury over freeholder and agents' 'secret' insurance commissions

Campaigners for leasehold reform are calling on regulators and trade bodies to take action against freeholders and managing agents who overcharge for buildings insurance and hide commissions and other payments.

Times Money reported last week that many leaseholders are being overcharged by 40 per cent or more for their buildings insurance because insurers are paying hefty commissions to brokers, managing agents and freeholders. The payments are built into insurance policies and often hidden from leaseholders who don't realise they are being charged inflated prices.

One *Times* reader, a leaseholder, said they had had a similar experience: "I always had the feeling that we were viewed as 'cash cows' rather than clients." Another said: "It's outrageous that this is allowed to happen. Time to abolish leasehold and make commonhold mandatory. That way we would be in control of our destiny."

In a Commons debate this week, MPs highlighted the injustice of the lease-

Labour's leasehold reforms

- Ending the sale of leasehold new-build houses now, and stopping the sale of private leasehold flats by the close of Labour's first term of government.
 - Banning ground rents on new leasehold homes and capping
- them for existing leaseholders at 0.1 per cent of the property value, up to a maximum of £250 a year.
- Introducing a set cost formula to enable leaseholders to buy the freehold of their home, or commonhold in the case of a flat, capped
- at 1 per cent of the property value.
- Cracking down on unfair fees and contract terms and greater transparency on service charges.
 - Greater powers for leaseholders to hire and fire their managing agent.

hold structure and the Labour Party unveiled plans for an overhaul of what it calls a "feudal system".

Sir Peter Bottomley, MP, the co-chairman of the all-party parliamentary group (APPG) on leasehold and commonhold reform, says: "Secret residential leasehold insurance commissions hidden from leaseholders will be at the top of the agenda at our forthcoming meeting with the Financial Conduct Authority [FCA]."

Neil Holloway, the founder of M2Recovery, has spent years recovering millions of pounds of "secret" insurance commissions for clients from managing agents and freeholders. He gives an example of how an insurance deal might be structured on a block of flats where the annual insurance premium charged to the leaseholders is £15,000. He says: "The freeholder might go to his preferred broker and enter a commission-sharing agreement. The broker

would negotiate a net price with the chosen insurer of, say, £10,000 to which would be added a broker's commission of, say, 20 per cent. Then there would be the commission to the freeholder, usually between 20 and 30 per cent. So of the £15,000 premium, about £5,000 would be commission."

Holloway says: "This is standard practice in the insurance market. While it is not supported by all insurance companies, those that trade heavily in the property market accept that they have to include a commission to either a freeholder or managing agent to secure the business."

A spokesman for the Association of British Insurers, the industry trade body, says: "The levels of commission paid by insurers to insurance brokers and intermediaries is a commercial issue for individual companies to make. [Insurers] will not be involved in any arrangements that a broker may have with other parties."

A code of conduct set up by the Royal Institution of Chartered Surveyors, and theoretically binding on all managing

agents, says that insurance fees (including commissions) and all other sources of income in relation to the service charge should be declared annually to the client (normally the freeholder) and to leaseholders.

However, insurance brokers and other companies that are not managing agents have no duty of disclosure to leaseholders and nor do freeholders, says Martin Boyd of the Leasehold Knowledge Partnership, a group that campaigns on behalf of leaseholders. He says freeholders and managing agents will use this loophole to avoid full disclosure of commission.

Boyd says: "The solution to the loophole is for the FCA to rule that leaseholders are a party to any insurance policy for their buildings."

Any leaseholders whose freeholder or managing agent fails to confirm if insurance commission is being received, should contact martin.boyd@leaseholdknowledge.com at the APPG. "This costly and potentially corrupt practice must end," says Sir Peter.

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