

What goes around is coming around on leaseholder insurance fees



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24 Feb 2023

Indicative reading time: **4 minutes**

News Editor's View: Scott McGee warns insurers and brokers that the 'huge scandal' of leaseholder insurance fees could be coming back to haunt them.

“There is a huge insurance scandal coming down the track, with what has been going on with managing agents and leaseholders. It is absolutely outrageous; they are just ripping people off.”

Those are the words of the Rt Hon Lord Kennedy of Southwark in a House of Lords debate this week about the *Levelling Up and Regeneration Bill*.

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Rt Hon Lord Kennedy

Broker commissions have long been a topic of interest for the insurance industry. Whether brokers are getting too much, or not enough, in commissions, it is a topic of conversation that endures.

Rates

However, one reason it continues to be a topic of conversation is because of the mystery surrounding rates.

Brokers should be paid for their services – they are an integral part of the industry, and provide a valuable service for customers on behalf of insurers – but should they be more transparent about how much commission they get?

When it comes to leaseholders in multi-occupancy buildings, the answer is: yes, probably.

In a letter to the British Insurance Broker's Association in 2022, the then Levelling Up secretary Simon Clarke said he had become aware of "[disturbing evidence on remuneration practices](#)" when it came to broker commissions in multi-occupancy buildings. The recent [tribunal case of Canary Riverside](#) is what he was alluding to.

In that tribunal, it was ruled that more than £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 of a contract outlining the sharing of

commission or fees or otherwise with WMS.

Greater transparency

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

Baroness Claire Fox of Buckley, in the House of Lords debate this week, commended that those fighting for justice, including Angela Jezard, the resident who led the legal action at Canary Riverside.

“I do not know whether noble Lords have been following the heroic work of Angie Jezard from Canary Riverside, who spent three years of her life uncovering that she and her fellow leaseholders had spent £1.6m in secret insurance commissions to a freehold-linked company,” Baroness Fox said.

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Baroness Claire Fox

“This is potentially corruption, and leasehold campaigners and their tireless volunteer legal reps, such as Liam Spender, estimate that excessive costs have been paid that run into thousands of millions across the UK.”

Another case which looks like it will go down the same route as the Canary Riverside tribunal, is the One West India Quay development, of which Yianis Group is also the freeholder.

Information on charges

As reported by the *Financial Times*, lead insurer Zurich told leaseholders it is “working to reduce the commission paid on buildings where premiums have significantly increased”, but did not have permission to disclose information on charges.

That is ultimately where the problems lie, as leaseholders have no control or understanding of where their money goes. They have no idea

what they are paying for and where that money ends up.

During the debate, Lord Kennedy put forward amendments which will give leaseholders more power and require more transparency around commissions. However, Michael Gove, the new Levelling Up secretary, has said he will go one further and [outright ban commission](#) for managing agents and freeholders.

Both Biba and the Association of British Insurers have pledged to work with the government to find a solution.

In its 2023 manifesto, Biba said: “We have an objective to work with our broker members individually to support them where necessary, as they review their remuneration practices for the distribution of insurance for multi-occupancy buildings.

“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 Financial Conduct Authority fair-value requirements. This includes payments to property managing agents or freeholders.”

Higher insurance costs

Meanwhile, the ABI [reaffirmed its summer launch date](#) for a new scheme to address high insurance costs for leaseholders at its annual conference this week.

Barry O’Dwyer, president of the ABI and group CEO of Royal London, said: “Our dedication to supporting leaseholders, and working with the government and the FCA to help address high insurance costs, is unwavering.

“The ABI is developing a scheme with reinsurers, and work continues as a priority to progress this.”

Whatever happens in the future, we would hope to see insurers and brokers do the right thing to make sure there are no more dodgy dealings and taking advantage of leaseholders.

The ABI is developing a scheme with reinsurers, and work continues as a priority to progress this.

Barry O’Dwyer

But for those that have already partaken in this kind of activity, the chickens could soon be coming home to roost.

If campaigners are correct to say that costs run into thousands of millions across the UK, some of those insurers and brokers can expect to pay those costs back, retrospectively.

It has started with Canary Riverside, and the outcome of the tribunal would give other leaseholders hope to recoup their losses, so we can expect many more cases like this to be brought forward in the future.

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