

# Insurance Times

## Briefing: Why property insurance commission is so controversial

By Saxon East | 30 March 2022

**The storm over property insurance could lead to full-blown commission disclosure debacle**

*By Content Director Saxon East*

It has taken years to brew, but the storm over property cover commissions is finally hitting the insurance sector.

Events are now here on multiple fronts:

- A property tribunal has ordered broker **Reich Insurance to hand over fees and commission information concerning leaseholders** at a property development.
- **A motion in parliament is calling for all brokers to disclose fees, commissions, remuneration and costs** within premiums paid by leaseholders.
- The FCA has written a 'Dear CEO' letter, calling for an industry solution to the rising premiums on buildings insurance.
- Cabinet minister Michael Gove is demanding action and is watching events closely. **The government may even offer insurance for people waiting on cladding remediation work.**



Saxon East

There are two issues here, both linked to each other.

Firstly, buildings insurance has risen on certain properties following 2017's Grenfell Tower fire, as insurers increased premiums amid the heightened risk. There is some argument and defence here for the industry.

The second issue is about excessive commissions charged to those paying service charges.

## What happens next

On the excessive commissions specifically, the insurance industry may well argue that it has acted appropriately on different arrangements.

Brokers and property managing agents frequently take a large cut from the premium offered by the insurer.



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However, leaseholders have the right to request insurance information from their property managing agent (PMA).

No problem there then.

In other cases, the landlord may charge tenants a service charge. The tenant, therefore, is not the actual customer. The landlord is the customer, so insurance firms have no obligations to these tenants.

### 'Dear CEO' letter consequences

The problem here is that the FCA's 'Dear CEO' letter is urging insurers and brokers to account for all customers in the chain, to ensure they are being treated fairly.

They are clearly not. The tenants paying service charges have no rights and even leaseholders' rights are limited with the PMA.

Furthermore, the FCA's principles state that "a firm must conduct its business with integrity".

Insurance firms have failed on this front. They are clearly not acting with integrity, but are motivated first and foremost for profit gain.

If the government gets involved, then puts pressure on the FCA to change rules and demand full broker disclosure for property commissions and remuneration, they will find some pretty poor behaviour.

This may then lead to wider commission disclosures on all products.

Even worse, this could lead to caps and price constraints on more controversial products.

After all, the government will rightly think that if the insurance industry is so devoid of any kind of societal moral compass, it cannot be trusted to act alone.

Hard legislation and regulatory rule changes are needed.

To see off this scenario, insurers should collect data on exactly what sums are being collected by brokers and what the product offers exactly. Insurers should then find a way to ensure the all those in the customer chain are treated fairly.

Insurance firms have a moral obligation.

Sadly, the insurance industry does not have a great track record of acting by itself to find solutions. We can only hope this time is different.

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