

FCA launches Consultation Paper on Multi-Occupancy Buildings

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< Previous

[Canadian court rules on whether COVID-19 amounts to physical damage](#)

Next >

[E-scooters – what are they?](#)

On 21 April 2023 the FCA published its long-awaited [consultation paper](#) on Multi-Occupancy Buildings. In this article we look at the reasons for the consultation and the consequences for insurance firms.

Why consult?

The FCA has, for some time, been concerned about the way insurance products are distributed in relation to multi-occupancy property. The regulator has had several concerns, which can largely be divided into 2 broad areas:

- Leaseholder interests – a key concern has been that in most cases a policy is taken out by a landlord or property management company, essentially for the benefit of leaseholders. However, leaseholders are not party to the policy and usually have very little say as to the choice of policy.
- Remuneration – it has been common in the market for intermediaries to share their commission with the landlord or managing agent, with the latter receiving more than half of the intermediary's commission in some cases. This has led to concern that leaseholds are not receiving good value for the premiums they are paying through their service charge, as they are essentially paying for their own landlord or managing agent's commission share.

The proposals

Owing to the above concerns, the FCA has published the consultation paper to which it proposes:

- A requirement for distributors to provide additional disclosure to leaseholders, including in relation to price and other policies that were available but not selected;
- the provision of information relating to remuneration of all parties in the distribution chain, including any payaways to property managers and landlords;
- a requirement for firms to respond to queries from leaseholders, even though they are not technically policyholders;
- the disapplication of the 'contracts of large risks' exemption for multi-occupancy buildings; and
- extending the PROD regime and 'best interest rule' to include consideration of leaseholders' interests.

The FCA is not currently proposing a cap on remuneration or commission-sharing arrangements, but the impact of these proposals (assuming they are enacted) is likely to be that some of the larger commission-sharing arrangements will disappear. Intermediaries (and those distributing direct) are likely to face additional work in the form of queries from leaseholders.

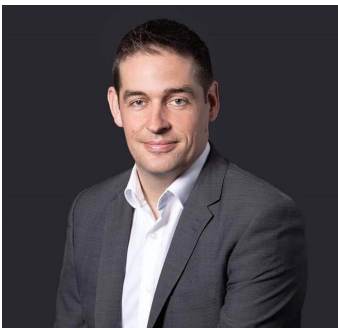
Impact for insurers

Whilst most of the proposed changes will impact brokers, insurers must be mindful of these changes and how they impact the distribution of their products. For example, at product design stage insurers must ensure they have taken the leaseholders' interests into account. Insurers should also ensure they are aware of changes to the remuneration practices of intermediaries and update any fair value assessments, as appropriate.

Contents

The Word, April 2023	→
Beware of broad exclusion – Cronos v Generali	→
Australian courts issue a 'common sense' judgment on a rainfall exclusion	→
Subrogation and 'co-insureds'	→
Canadian court rules on whether COVID-19 amounts to physical damage	→
FCA launches Consultation Paper on Multi-Occupancy Buildings	→
E-scooters – what are they?	→
Defining a home - what's within a dwelling?	→
Artificial Intelligence – the science of art	→

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