

## Summary

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- The cost of insuring multi-occupancy residential buildings has increased since the Grenfell Tower tragedy in 2017
- The Financial Conduct Authority (FCA) recently made several recommendations about the way the market for multi-occupancy buildings insurance operates
- The Government is due to bring forward new legislation to provide leaseholders with more information about their insurance, including replacing insurance commissions with more transparent fees
- GRIO's standard asset commission percentage is 9.75% of premiums payable (excluding taxes). To support leaseholder affordability, this is reduced to 5.0% of premiums payable (excluding taxes) for properties with relevant defects as defined by the Building Safety Act 2022
- Across all those properties where GRIO is responsible for insurance, the current annual commission payable is equivalent to an average of £32 per leaseholder, based on a total average commission percentage of 7%
- Consistent with GRIO's objective to deliver best-in-class residential asset management, and ahead of any new legislation brought forward by the Government, a range of actions are available to GRIO insured leaseholders to support information sharing and transparency

## Context

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The cost of buildings insurance to residential leaseholders and other property owners of multi-occupancy buildings has increased across the UK since building safety issues have been identified in the wake of the Grenfell Tower tragedy in 2017.

Since then, the Government has introduced new building safety legislation focused on protecting leaseholders in their own homes and ensuring that those involved in the development of poorly constructed buildings are responsible for their remediation. GRIO and Schroders endorse the Government's aims of improving building standards, and helping to protect leaseholders living in their homes from the costs of remediating building safety risk issues. It is worth noting that GRIO did not develop any of the properties within its portfolio.

The Government has also asked the Financial Conduct Authority (FCA) to review, in consultation with the Competition and Markets Authority (CMA), the way the market for multi-occupancy buildings insurance operates.

One of the FCA's key findings was evidence of some high commission rates and poor practices which were not consistent with driving fair value for leaseholders. The FCA noted that in many cases the insurance commission rate was at least 30% and that commission in absolute terms had increased since the Grenfell Tower tragedy, driven by increases in insurance premiums and the supply of insurance for multi-occupancy residential buildings having contracted significantly.

### **The FCA's recommendations include:**

1. the insurance industry working with it and the Government to create a risk pooling solution to reduce premiums paid by leaseholders;
2. for the Government to consider imposing a new legal requirement to provide information on the insurance policy to leaseholders; and
3. for Government to consider ways to give leaseholders a straightforward and easily accessible route to challenge insurance costs.

The Government has already announced it will bring forward legislation to provide leaseholders with more information to enable them to better scrutinise their insurance costs, including replacing insurance commissions with more transparent fees. This legislation is yet to be proposed and GRIO and Schroders are considering the Government's announcement.

GRIO and Schroders welcome the announcements by the Government and FCA, and support the three noted recommendations to improve transparency and value for leaseholders. It is contended, however, that commission is not the primary driver for increased premium costs payable by leaseholders. It is also important to recognise that, in the current climate, the work being done to place these sometimes difficult risks with complex reinsurance arrangements has increased substantially. In addition, Insurance Premium Tax (IPT) revenues by the Government have increased significantly and the tax continues to be applied even where building safety remediation requirements have been identified at a particular property, and so premiums and overall costs for leaseholders have increased as a result.

### **GRIO's approach to insurance**

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The responsibility to insure the properties where Ground Rents Income Fund plc and its subsidiaries (together GRIO) have an interest is governed by the obligations contained within the leases. These obligations vary across properties but usually the responsibility sits with GRIO as landlord or leaseholders by way of the relevant Management Company (ManCo).

Where GRIO is responsible for insuring a property, Schroders, as its Alternative Investment Fund Manager (AIFM), arranges the insurance on behalf of GRIO as part of a wider portfolio renewal with insurance broker Lockton Companies LLP (Lockton), a member of the British Insurance Brokers Association (BIBA). Doing so in this way allows leaseholders to benefit from a far bigger portfolio than GRIO in isolation, with benefits including the provision of more comprehensive, competitive cover terms versus a standalone policy. Leaseholders, where relevant, then receive an appropriate demand for payment from GRIO's income collection agent, Rendall & Rittner (R&R).

The responsibilities for arranging and procuring adequate insurance cover are extensive when carried out professionally and comprehensively. At complex, multi-occupancy residential buildings, which is the majority of the GRIO portfolio, the list of matters to be taken into account are considerable, and include determining the terms of cover required as appropriate for the circumstances, instruction of a recognised and experienced broker to seek competitive terms in the insurance market with a reputable insurer(s), general administration of the process (including ensuring that building cost assessment is appropriate by appointing experienced advisers) and claims coordination (including appointing a loss adjuster). There is also the need to carry the funding of insurance premiums paid to insurers prior to their payment by individual leaseholders. This process is overseen by the independent, non-executive Board of GRIO.

Where the landlord is responsible for the insurance, the commission paid to GRIO reflects this body of work, is consistent with institutional residential leasehold asset management and is agreed with Lockton subject to a

fair value test. For the current insurance year (ending 30 December 2023), GRIO's standard asset commission percentage is 9.75% of premiums payable (excluding IPT and including 25 basis points of commission retained by Lockton). For properties with relevant defects as defined by the Building Safety Act 2022 this is reduced to 5.0% of premiums payable (excluding IPT and with no commission retained by Lockton). This reduction is a deliberate exercise of GRIO's discretion to support leaseholder affordability and has been the case since the relevant defects (as defined by the Building Safety Act 2022) were identified. Across all those properties where GRIO is responsible for insurance, the current annual commission payable is equivalent to an average of £32 per leaseholder, based on a total average commission percentage of 7% (including a small amount of non-asset insurance policies, such as for risks associated with Terrorism and Property Owners' Liability). Note that insurance commission is calculated on a pre-tax basis.

It is worth noting that, in addition to the small amount of commission mentioned above, Lockton, as insurance broker, is largely compensated for the services it provides via a fee paid by the insurance underwriter(s). These services may include committing an insurer to insuring a risk, producing policy documents and settling claims. If calculated as an equivalent commission percentage of premiums payable (excluding IPT), this fee usually equates to approximately 10%.

Importantly, neither Schroders nor R&R receive any commission in connection with the insurance responsibilities of GRIO. It is also worth clarifying that GRIO and its service providers do not receive commission in relation to those properties within its portfolio where GRIO is not responsible for insurance. In such instances, leaseholders should contact their ManCo for more information.

GRIO's insured portfolio is marketed to a large number of insurers to ensure that the most competitive pricing can be achieved, both in terms of actual cost and the terms of cover available. We are also aware that it is currently unlikely that insurers would be prepared to offer cover on a standalone basis to properties with relevant defects as defined by the Building Safety Act 2022. For example, since 2020, some leaseholders at other properties within the GRIO portfolio, where a ManCo is responsible for insurance, have accepted GRIO's offer to transfer their insurance risk onto GRIO's block policy. GRIO and Schroders have been happy to support leaseholders in such instances. It also emphasises the importance and value of GRIO and Schroders' portfolio policy arrangement, although this may not be available in all cases because some buildings are not insurable or would have severely restricted cover due to construction, natural hazards or an unfavourable claims history.

Finally, IPT is payable on buildings insurance at a rate of 12%, even where building safety remediation requirements have been identified at a particular property, and so premiums and overall costs for leaseholders have increased as a result. It follows that IPT earnings by Government have increased significantly. GRIO and Schroders would support a specific IPT exemption for those properties undergoing or awaiting remediation of relevant defects as defined by the Building Safety Act 2022.

## Action available to leaseholders

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Consistent with GRIO's objective to deliver best-in-class residential asset management, and ahead of any new legislation brought forward by the Government, the following, among other things, are available to leaseholders:

1. Leaseholders are currently provided with a summary of their insurance policy and the wider insurance market with their annual premium. Upon request, GRIO will share with leaseholders a more detailed breakdown of their insurance premiums payable, including commission in both percentage and absolute terms; and the information provided to insurers to underwrite their own property. On request GRIO will also provide a copy of the current insurance policy wording.

2. If a leaseholder is able to find (by 31 October of any given year) a more competitively-priced comparable insurance policy that provides at least as good terms of coverage as the current insurance policy, with a reputable insurer, GRIO will consider placing that insurance for the 31 December renewal of said year.
3. GRIO is happy to change future insurance commission payable to a fee for managing the insurance process. This would increase transparency available to leaseholders but may also increase the overall cost. This is because the fee would attract VAT at 20%, rather than IPT at 12%. This proposal is subject to a majority of leaseholders at any given relevant building being in favour, with the organisation of such a poll being the responsibility of leaseholders.
4. In lieu of commission being payable, GRIO is happy to consider changes to future insurance arrangements whereby leaseholders of any given relevant building are responsible for the administration of the insurance policy. This would include arranging the collection of premiums from individuals, answering any queries or claims enquiries and managing the claims handling process, including retaining a loss adjuster. This proposal is subject to a majority of leaseholders at any given relevant building being in favour, with the organisation of such a poll being the responsibility of leaseholders. Leaseholders would also need to agree a single collective response by appointing a 'person to contact'.

To contact GRIO in relation to the above, please contact [legal@rendallandrittner.co.uk](mailto:legal@rendallandrittner.co.uk).

More generally, should leaseholders or others have any queries on residential leasehold legislation, including matters relating to insurance, the recoverability of service charges, right to manage, statutory lease extensions, collective enfranchisement or other such rights, they should seek their own independent legal advice or refer to the Government's free Leasehold Advisory Service:

[www.lease-advice.org](http://www.lease-advice.org)