

Leasehold Buildings Insurance Premium for 30 July 2023 to 29 July 2024

Zurich Municipal had increased their insurance premium for the year 2021/22 by a total of 116%. For the 2022/23 insurance premium this increased by an additional 25%.

This was reflected in the 2023/24 estimated service charges at 40% for the upcoming Insurance year and will be a direct increase of the amount paid last year. As of 30 July 2023, we entered into a new long-term agreement with Marsh Insurance Brokers, with Protector Insurance providing Buildings Insurance as part of a tender process. Apart from the claims experience, the increases in recent years are as a result of several factors common across London and the UK, leading to many large increases.

We have put together some frequently asked questions below to help explain these changes.

Why is the insurance premium increasing?

When renewing insurance, premiums can increase or decrease depending on various factors such as claims performance. If the number of claims increase, then insurers are likely to increase the premium in the next insurance period to adequately reflect the increased risk. The increase is a result of the high number of claims since the contract started along with the impact of Covid-19, which has meant residents have spent more time in their homes leading to a rise in accidental damage and claims. This continues to be the case as more people remain working from home rather than returning to their historic places of work throughout the week.

The cost of building insurance has also continued to increase by large amounts for freeholders, social housing providers and local authorities this year due to Brexit, Solvency 2, EWS1 and cladding reinsurance. Some insurers are still offering renewal terms as much as 1000% higher than last year or are not offering terms at all.

We have included some useful links to confirm the market position, the most recent being from the FCA in September 2022. Please note that these compare 2019/20 to 2020/21 premiums, 2021/22 and 2022/23 has seen even bigger increases;

www.thefpa.co.uk/news/flat-owners-seeing-huge-rise-in-insurance-premiums
<https://committees.parliament.uk/publications/5515/documents/54941/default/>
www.fca.org.uk/publication/corporate/report-insurance-multi-occupancy-buildings.pdf

Why does this affect me if I have not submitted any insurance claims?

We insure our properties on a total reinstatement basis per schedule, so in the case of the Leasehold units, the total reinstatement value of the leasehold units. This is still by far the cheapest way to insure your properties. If we were to insure per block or per estate irrespective of a good claims experience this would cost considerably more to insure as the risks of claims are higher per block or estate for the insurers.

Additionally, the costs to manage so many individual policies would be a significant addition in broker and our own admin fees. Insurers could also decide to refuse to insure certain buildings if we were to insure in this manner placing the buildings concerned at high risk.

How does inflation impact the premium?

Every year, the amount of money your property is insured for will likely rise in line with building inflation. This increase has always been part of the premium renewal process and takes into account the potential impact on the cost of reinstating or rebuilding your property.

Due to the costs of labour and materials rising sharply, the inflation on reinstatement values has had to increase significantly from a historic rate of around 3-5% to currently 11%. Insurers are advising an increase to close to 20% for the coming year.

Is the insurance excess level increasing?

We have kept the insurance excess level at £100 historically for all risks except subsidence, which was £1,000. This is now not an option for the majority of insurers to offer in the market and the insurers have changed the excess to a minimum £350 for all risks except subsidence which remains at £1000. Market research shows this is still quite low with some excesses for escape of water claims being as high as £1,000.

Is the contract length still a five-year period and will it still expire on 29 July 2023?

Yes, we entered into a long-term agreement on 30 July 2018 with a period of insurance each lasting one year up to 29 July 2023. This holds prices in a bracket generally still cheaper than most of London; the percentage increase is big but in monetary terms far less than many others as we insure on a collective basis per schedule, not per development.

When will the new long-term agreement start?

We are now in our final year of insurance with our current insurer, and we are in the early stage of an insurance competitive tender. This will also bring together the insured interests of Catalyst Housing Ltd through our recent merger. We can assure you that we will do everything we can to ensure that the Leasehold schedule is as competitive as possible providing leaseholders with the best possible outcome. As before we will be insuring all leasehold properties under one policy.

If we were to insure per development rather than on a collective basis both the premium and excesses would be considerably higher, as the risks are much higher to insurers and cover may not be available in the market. The new long-term agreement (LTA) will start on 30 July 2023. It will run for a minimum of three years with an option to extend up to an additional two years if mutually agreed with ourselves and insurers, meaning the LTA will expire on 29 July 2028. We will write to you again under Section 20 prior to 29 July 2023 to notify you of who was awarded the long-term agreement for insurance.

What process have you undertaken to ensure the premium is kept as low as possible?

Market factors aside, we have historically consulted with Zurich Municipal throughout the lifecycle of this contract to look at areas we could improve on to reduce our claims, which would help reduce premiums. Examples include looking at leaks within properties and carrying out additional maintenance at the highest claiming properties to prevent high frequency claims. This will hopefully result in a reduction in claims costs, frequency of claims and ultimately will be more favourable to any insurer.

We are taking all possible measures to reduce the number of claims and to provide our leaseholders with the best possible overall premium. As per the previous point we are currently in the process of a tender and a large part of the tender scoring is going to be price. However, we will need to ensure that initial prices quoted by bidders is not subject to large increases due to policy penalties. Quality of the product therefore is going to be just as important. We will do everything we can to ensure that the price is kept as low as possible for the duration of the LTA.

How will we monitor the success of reducing claims and their costs?

We will continue to monitor and review the progress of properties with leaks as these appear to be one of the most frequently occurring claims. By working with our repairs service and other relevant departments we will review procedures to make improvements where needed.

What can leaseholders do to help with claims?

A key element here is to keep all pipework within your demised space maintained. If you were to suffer a leak from either another property or from our communal pipework, please report this to us and the other property owner, if known, as soon as possible. The same would apply to the insurers, as early notification of damage will result in the claim costs being significantly reduced. If another resident were to inform you that a suspected leak is occurring from your property, please inspect all pipework immediately.

If a leak you do discover a leak please turn off your mains supply until the leak has been repaired by an emergency plumber to prevent further damage. Finally, please do not dispose of anything other than toilet paper down the toilet. Oil and fat are not to be poured down the sink or drains as these all contribute to blockages in the waste pipes, that can result in flooding of properties.

Could the policy premium be subject to a further premium increase at future renewals?

Insurance contracts are renewed annually for 12 months. Therefore, the new provider could apply further increases beyond 2023/24 if the number of claims does not improve and the insurance market continues to show price increases, including significant increases to the reinstatement inflation rate. If this is the case, we will of course update our leaseholders as we progress through the next insurance year. If you have any queries that are not answered within these FAQs, please contact either CCL or email us at Section20insurance@peabody.org.uk