

Tribunal hits Reich Insurance with forced commission disclosure order

By Yiannis Kotoulas | 15 March 2022

The order follows FCA warnings on the need for 'fairness and transparency' around broker fees and commissions

A property tribunal has ordered Manchester-based broker **Reich Insurance Group** to hand over a spreadsheet containing details of any broker fees or commissions that leaseholders at Canary Riverside may have been paying as part of their service charges.

Reich had been employed by Canary Riverside Estate Management (CREM) and property management firm Octagon – both companies are under the ownership of Monaco-based billionaire property magnate Yiannakis 'John' Christodoulou.

The disclosure order came from the First-tier Tribunal (FTT) of the Property Chamber following more than two years of litigation between leaseholders at the Canary Wharf-located apartments and Christodoulou.

The Property Chamber FTT settles disputes in relation to leasehold property and the private rented sector.

CREM was stripped of direct management responsibilities for Canary Riverside back in 2016 following the FTT's decision to appoint an independent manager for the site.

In the application for this management change, tenants cited that the landlord had "made and/or proposed unreasonable service charges".

Reich has been given until 17 March 2022 to comply with the FTT's disclosure order.

In a statement to *Insurance Times*, Reich chief executive Simon Taylor said: "Reich Group is of course fully committed to complying with the



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FTT's order in providing the required information, as we will with any court ruling.

“As a business, we are only ever interested in adhering completely to the rulings of any legal authority and, of course, to our regulator, the FCA.”

Clamping down

In its most recent investigation, the FTT has also rejected an attempt by Christodoulou to dump £355,000 of debt accrued by a Virgin Active gym located within Canary Riverside onto leaseholders via service charge fees.

The FCA has previously warned brokers that fees charged should represent fair value.

This followed an inquiry ordered by Michael Gove, secretary of state for levelling up, housing and communities, in January 2022 to investigate the buildings' insurance market because of concerns around unfair commissions being charged.

James Dart, managing director of FCA compliance consultancy Dart Compliance, described it as “interesting” that it took over two years for the FTT to force the disclosure of commissions.

He added: “One result from the case and the government ordered enquiry could be to give leaseholders the right to receive commission details, where commissions are paid to third parties by the broker.

“The FCA, in [its] recent ‘Dear CEO’ letter, [is] already expressing concerns about these hidden remuneration elements and are ordering that fairness to leaseholders is taken into account in firms’ value reviews.”

Dart explained that the common practice of increasing commission rates to pay other parties in the chain – whether they add value or not – risked forcing the regulator's hand to enforce “more draconian measures”, such as mandatory income disclosures.

“What is clear, however”, Dart continued, “is that practices such as this do nothing to reinstate customer trust in the industry, which is still low due to the Covid-19 business interruption claim situation.”

Fair value

Branko Bjelobaba, principal at compliance consultancy Branko, told *Insurance Times* that it was clear “that the FCA and the government want to see fairness and transparency in this sector”.

He noted that it should be a requirement that insurers review their products to assess whether fair value was provided to the end consumer.

“If larger brokers are pushing for greater commissions to allow a very generous split with property managing agents, then this is wrong and insurers must stop this egregious practice,” he added.