

ARE YOU COMPLIANT WITH THE LAW? ONE THING TO CHECK THIS MONTH: INSURANCE

By Tessa Shepperson of Landlord Law

Much of the content of this magazine is about the business of investing and developing property to rent. However, sometimes people overlook the legal rules and regulations which landlords need to comply with.



Renting property to tenants is heavily regulated. Many of these regulations carry substantial penalties for non-compliance. So, your earnings as an investor are dependent not only on your savvy investment skills but also on legal compliance to avoid fines and penalties.

Every month, we will be looking at one issue where, if you fail to comply, could cause you financial loss.

This month's topic is:

Insurance

It is not a legal requirement to carry insurance for your rented property, but you would be extremely foolish not to have it. Your rented property (or properties) are probably the most expensive thing or things that you own so you need to make sure that they are properly protected.

However, just having insurance is not enough. You need to make sure it is the right insurance and that you are properly complying with your insurer's terms and conditions.

If you don't, you may find that your insurers refuse to accept claims. Which could be extremely expensive for you.

The right kind of insurance

First, your insurance must be a policy specifically aimed at rented property. You should not (for example, if you are renting out your own home) use ordinary domestic insurance.

Your insurers need to know that the property is rented out and if you fail to tell them this, they will have a good reason to refuse claims.

Are your insurers fully informed?

When you take out an insurance policy, there is a legal duty on you to act in 'the utmost good faith', sometimes known by its Latin name, *uberrimae fidei*.

This means you must be totally upfront with your insurers and not conceal anything from them that could possibly affect your property and the claims you may want to bring.

For example, your insurers will probably want to know:

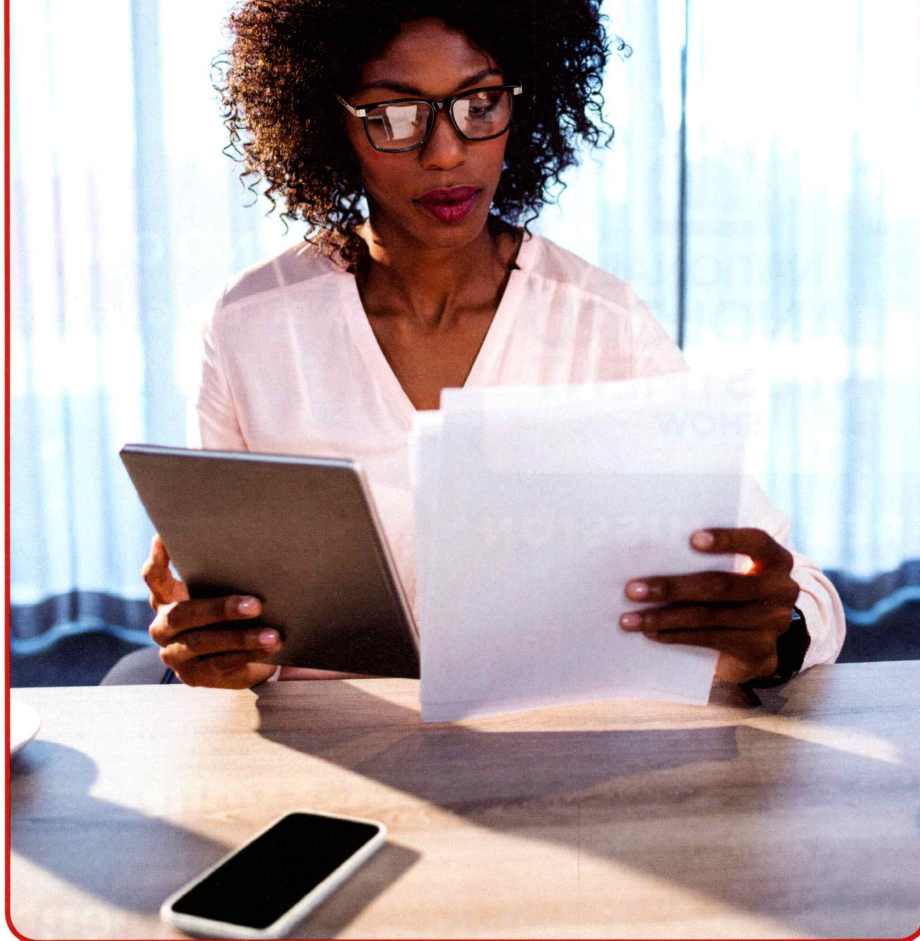
- If your property is a House in Multiple Occupation
- If you rent to students, and
- If you rent to tenants on benefit

They will also need to know if there are any potential problems with the property itself, for example, if there is a history of subsidence or if the area is subject to flooding.

"your insurance must be a policy specifically aimed at rented property"

When providing information to your insurers or completing application forms, it is essential that you are totally honest with them about everything and do not hide anything of significance.

Indeed, doing this will give you protection. If your insurers know that the area is one that has been subject to flooding in the past and still agree to provide cover, they cannot later refuse to pay out if the property is flooded.



Be careful with the sum insured and what you insure

Your insurers will want to know the rebuild value of your property, and the cost of your premiums will probably be based on this. Do not be tempted to quote too low a figure.

If you do, this will affect the sum paid out to you – even if your claim is less than the full sum insured.

For example, say the cost of rebuilding is £100,000, and you insure the property for £50,000. If you later have a claim for, say, £6,000, then as you have underinsured by 50%, your insurers will only pay out £3,000.

Also make sure you have insured all that is necessary. Landlords of flats often fail to take out insurance if the building is insured by the freeholder, forgetting that they need to have cover for things such as plaster, flooring, decorating, kitchen and bathroom fittings, furniture, etc.

What are your insurance terms and conditions?

All insurance policies have terms and conditions, and you should check these out, ideally before agreeing to take on the policy, to make sure it is suitable for you.

I know these are deeply boring documents, but you need to know what you are signing up to.

One condition that more and more insurers are asking for is that you carry out regular property inspections. Which is a reasonable request.

Say, for example, you find that your property has been converted into a cannabis farm. The conversion process causes considerable internal damage to properties, meaning your claim will probably be many thousands of pounds. Your insurers will be entitled to refuse to pay out on the claim if they discover that you did not reference the tenants properly and have never done any property inspections.

There may be other conditions. For example, some policies (fewer now, but still some) will exclude cover for tenants on benefits. Of course, this may happen mid-way through the tenancy if the tenant loses his job, in which case you need to notify your insurers so they are aware of the situation. If you do this, they should continue your cover.

Other policies will prohibit subletting. So, if you find that your tenant is renting out rooms, or possibly the whole property, on Airbnb, you should notify your insurers immediately so that they are aware of the situation. If you are upfront with them, then if they are a good firm, they will probably

help you deal with this sort of situation, which is not your fault.

I would suggest you make a list of the main conditions that apply to your insurance and pin it to a notice board in your office. You need to:

- Make sure you are compliant, and also
- Make sure your tenants are compliant – which could mean that your tenancy agreement may need some amendment.

Voids

Your policy will probably have a limit for the amount of time they will provide cover if the property is empty – for example, between tenancies.

Make sure you know what this is. The better policies will have a generous void period, such as 90 days. Other, usually the cheaper, policies may only give 14 days' cover.

Whatever the void period is, if your property is empty for longer you should contact your insurers immediately and arrange for additional cover for the remainder of the void period.

Take care choosing your insurer

The cheapest firm is not necessarily the best! You need a firm which will be supportive if things go wrong and which will deal with claims quickly and professionally.

Space does not permit me to go into further details here, but I have a free 'mini-course' for landlords on insurance, which lists the other things you need to watch out for.

You will find it at

www.landlordlaw.co.uk/insurance



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Tessa is a specialist landlord and tenant solicitor and author of www.landlordlaw.co.uk and www.lodgerlandlord.co.uk. If you are worried about carrying out inspections, detailed guidance can be found in Tessa's Property Inspection Kit at www.landlordlaw.co.uk/pik.