



ADVICE NOTE INSURANCE

A guide to insurance for your block of flats

Note:

As the leading trade body for residential leasehold management, ARMA is also an important resource for leaseholders. Our Advice Notes cover a range of topics on the leasehold system to help leaseholders understand their rights and responsibilities and ultimately get the most out of living in their flat.

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SUMMARY

In this Advice Note, we'll take a look at your legal rights when it comes to insuring your block.

We'll also explain the different sorts of insurance that are normally required for a block of flats and how managing agents who arrange it are regulated.

We'll also offer advice on how to reduce the number of claims.

Note: Where we refer to Residents' Management Companies (RMCs) this also includes Right to Manage Companies (RTMs).

YOUR LEGAL RIGHTS

All leaseholders and recognised residents' associations have the right to request a summary of the current insurance cover in place for their block. They can also inspect the policy document and ask to see evidence that the premium has been paid.

The landlord, RMC, or their agent have 21 days to allow the inspection to take place and this should be free of charge. But a reasonable fee may be charged if copies of documents are made and sent to the person making the enquiry.

If the insurance policy includes a time limit on claims being made, leaseholders have the right to notify the insurer directly of any damage to their home or to the block where they live. They can also challenge the payability and/or reasonableness of insurance costs at a Tribunal.

If insurance is being placed for a period of over 12 months, then landlords and RMCs may be required to consult with all leaseholders under Section 20 of the Landlord and Tenant Act (1985).

To brush up on your full rights when it comes to insurance, take a look at S30A and the Schedule to the Landlord and Tenant Act 1985, as amended by the 1987 Landlord & Tenant Act and the Commonhold and Leasehold Reform Act 2002.

REGULATION OF AGENTS AND INSURANCE

General insurance is regulated by the Financial Services Authority (FSA). This affects managing agents who advise on, arrange or administer insurance.


'Administering' includes claims handling. So if you expect your agent to handle insurance matters, they need to be regulated to do so.

The options for agents are to become:

- An Authorised Firm, which means they can transact business with insurers or brokers
- An Appointed Representative of a single insurer or broker (although some brokers will still offer you a choice as they are themselves authorised firms and work with many insurers)
- An Introducer, which means the agent's involvement would only be to introduce their client to an insurer or broker
- Part of a designated professional bodies scheme (DPB) such as the one run by the Royal Institution of Chartered Surveyors (RICS)

RMCs that arrange their own insurance through a broker or managing agent do not need to be regulated by the FSA.

THE TYPICAL INSURANCE NEEDED FOR A BLOCK OF FLATS



THE INSURED SUM SHOULD REPRESENT THE FULL COST OF REBUILDING THE PROPERTY — NOT ITS MARKET VALUE. OLDER PROPERTIES IN THE LOWER PRICED AREAS IN THE UK, FOR INSTANCE, MAY COST MUCH MORE TO REBUILD THAN THEIR MARKET VALUE SUGGESTS.

The risks associated with a block of flats are significantly different to freehold houses. A standard building or contents insurance policy will not usually cover all the risks.

Blocks of flats should be protected by policies that cover:

- Buildings insurance
- Communal contents
- Property owners' liability
- Employers' liability, where staff are employed
- Directors' and officers' liability, where there is an RMC in place
- Plant inspection and breakdown repair (for example, engineering insurance for lifts)
- Terrorism cover

Buildings insurance

The insured sum should represent the full cost of rebuilding the property — not its market value. Older properties in the lower priced areas in the UK, for instance, may cost much more to rebuild than their market value suggests.

Communal contents insurance

Insurance policies for blocks of flats will provide limited cover for the contents of communal areas — typically a limit of around £10,000 is found to be sufficient. Such contents should include furniture, carpets and curtains.

Property owners' liability

It's essential for the policy to include property owners' liability cover in case of injury, death or damage to third party individuals on or adjacent to your property — postmen, meter readers or council employees for example.

Employers' liability

Some insurance providers will offer employers' liability cover as standard, other companies may charge an additional premium. It's important to check that this cover is in place if your RMC or your landlord has a contract of employment with any individuals, such as caretakers or gardeners.

Directors' and officers' insurance

The law does not differentiate between a volunteer director of an RMC and someone running a large commercial business.

The actions or inactions of RMC directors can have a serious impact on other leaseholders' property. Directors can be personally sued for this and can face potentially unlimited personal liability.

Make sure your policy covers both the management company and the individual directors.

Plant inspection

Any building with lifts will need to comply with the statutory requirements for inspection and maintenance. A broader plant inspection and engineering policy will cover lifts alongside other equipment in the building under a single, administered 'umbrella' policy.

Terrorism insurance

It may seem strange for a block of flats to need terrorism insurance but there's a strong case for it. If your building or home is damaged because of a terrorist incident, then any loss will only be covered if specific terrorism cover has been taken out. Normal policies will not cover the costs. What's more, some mortgage lenders insist upon terrorism cover being in place as part of any loan to flat owners.

Terrorism cover is not normally covered under the standard policy for a block of flats, and will need to be purchased as a separate section or addition.

Unoccupied flats

Some insurance policies will contain exclusions when a flat is unoccupied for longer than 30 or 60 days. So empty flats may not be covered for certain risks like water damage, theft or vandalism.

If you're going to be away from your flat for a long period of time, ask your insurer if they need to be notified of your absence. It may be necessary to arrange for regular inspections of the flat to ensure it stays covered.

It's also worth bearing in mind that insurance exclusions may affect other leaseholders, particularly if there's a water leak from an unoccupied flat and its not covered.

OTHER THINGS TO BEAR IN MIND

Subletting flats

Your building's insurance policy may have conditions about subletting. If you decide to sublet your flat, we strongly advise you to check the insurance arrangements of the block before doing so.

For example, the policy might not cover you for any loss of rent if the flat becomes uninhabitable for a period of time. And you might not be covered for providing alternative accommodation for a tenant if the building can't be occupied because of a flood or fire, for example.

It's normally up to you to arrange your own insurance for risks like these.

Household contents

The insurance taken out by a landlord or their agent for the building doesn't usually include cover for household contents and personal effects, although it will normally cover fixtures such as baths, basins and toilets.

It's important to arrange your own contents cover, including third party damage.

For instance, if a water leak from your flat causes damage to the flat below, the items can only be replaced if both of you hold contents insurance. If there's no third party cover in place, the affected owner will have to claim from their own contents policy, however unjust that may seem. And the same would apply to you.

Excesses

It's common for insurance policies to contain excesses for some risks. For example, you may have to pay the first £100 in water damage claims, or the first £1,000 in subsidence claims. The excesses may be higher if your block has a poor claims record.

If your flat has been damaged and an insurance claim is being made, the managing agent or freeholder might not be able to recover the excess on your behalf, even if the damage was caused by another flat. You may still be asked to pay the excess in order for the claim to go ahead. It may not be appropriate, or lawful, for the excess to be paid from the service charge account.



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HOW TO REDUCE INSURANCE CLAIMS

A low claims record will usually result in a lower insurance premium, so it's in the interests of everyone in your block to reduce the number of claims.

Insurers report year after year that the greatest number of insurance claims result from water damage originating from flats.

Here are some simple steps to help you avoid unnecessary insurance claims:

- Turn off the water supply to your flat if it's going to be unoccupied for any length of time
- Have the flat's stop tap checked annually — this could be done when your boiler is serviced
- Check all taps are turned off when you leave your home
- Don't leave plugs in basins, baths and sinks when you go away
- Check the hose connections to your washing machines and dishwasher regularly
- Make sure someone has a key, or at least the contact details of someone with a spare key, if you go away
- Don't leave running taps unattended
- Make sure bath and shower sealants are in good order and you have effective shower screens or curtains.

Note:

Whilst every effort has been made to ensure the accuracy of the information contained in this ARMA Advisory Note, it must be emphasised that because the Association has no control over the precise circumstances in which it will be used, the Association, its officers, employees and members can accept no liability arising out of its use, whether by members of the Association or otherwise.

The ARMA Advisory Note is of a general nature only and makes no attempt to state or conform to legal requirements; compliance with these must be the individual user's own responsibility and therefore it may be appropriate to seek independent advice.