

## **Landlord's Insurance for Beginners**

Landlord insurance, also commonly known as buy-to-let insurance, is something a landlord should begin to think about even as early as when they are considering the purchase of a property. Failure to put in place insurance on a property could leave you with nothing to show for your money should something go wrong.

In some cases it can be extremely difficult or highly expensive to put insurance in place for a property. For this reason it is important to have a structural and local survey done on the property and look for appropriate insurance policies before purchasing the property. Failure to do so could result in inflated insurance premiums, which ultimately could severely impact on your profitability as a landlord.

Many landlords will mistakenly be under the impression that their standard household insurance will still cover the property while they rent it out; this is often not the case.

Many household policies offer no cover for buildings, contents and important landlord's (property owner's) third party liabilities, while the property is being let out. For these reasons it is crucial to make sure you have a landlord policy or that your current household policy can offer this cover while the property is let out.

Each insurance company offers different levels of cover. Generally there are two options available for buildings cover and two options for contents cover. The first being standard cover which generally covers the building and contents for the following:

- Fire, lightning and explosion
- Riot civil commotion, strikes, locked-out workers or malicious people
- Malicious damage by tenant
- Theft or attempted theft
- Earthquake
- Impact by aircraft, road vehicles or animals, falling of trees, branches, telegraph poles, lamp-posts or pylons or falling aerials
- Escape of oil
- Storm
- Flood
- Escape of water
- Subsidence, ground heave or land slip
- Property Owners liability up to £2,000,000

Some insurers will also include free additional cover such as the following:

- Accidental breakage of sanitary fittings, fixed glass, solar panels and ceramic hobs
- Accidental damage to underground services which extend from your home to the public mains for which you are legally responsible

- Loss of rent or alternative accommodation
- Communal contents cover

The second option available is accidental damage for buildings and/or contents. This is as clear as the title: any accidental damage caused to the building or contents by the tenant will be covered. It is important to note that most insurers charge extra for accidental damage cover and many will not offer such cover for contents. An example of accidental damage to the building would be a tenant banging a nail into the wall for a picture and accidentally hitting (and damaging) a pipe.

As stated above, property owner's liability usually comes as standard with a landlord insurance policy. This would cover you in situations such as where the tenant holds you liable for an injury, which was caused within your property.

The excess of on a policy is how much you must pay yourself when making a claim. This will vary between different insurers and a discount on the premium is often offered in exchange for a higher excess. For example, if the excess on your policy was £100 then you would have to pay the first £100 of any claim you made, regardless of the final settlement value.

The standard excess on a policy will often vary from £50 upwards while a subsidence excess of £1000 is usual with most insurers. The type of tenant you have in the property can affect your excess. For instance, several students in a property will often mean your excess will be higher than if the property was occupied by a professional family.

Something to be aware of when insuring the property is that you need to insure it for the reinstatement value and not the sale value. The only accurate way to obtain the reinstatement value is to have a structural survey undertaken by professionals. The reinstatement value should take into account the following:

- The cost of building the property to its original state(take special note for older buildings)
- Clearing the site
- Surveyor costs
- Architect costs
- Complying with government and local authority requirements
- Miscellaneous fees

Insurers will only pay as much as the building is insured for, so failure to insure for a sufficient amount could result in expensive costs if a claim should arise. At the same time too high a reinstatement value could result in you paying a higher premium than is necessary – remember you pay this every year, year in, year out. Whilst there are tools available on-line which aim to provide a reinstatement value, based on several factors you in-put, we have found they often produce inaccurate results.

Most insurers will index-link your policy meaning that the sums insured will increase each year based on information from the Association of British Insurers ABI). This means that as long as your original reinstatement value is correct, the correct value will be maintained in subsequent years.

The Financial Service Authority (FSA) regulates all British insurers. Due to this regulation insurers must provide what is known as key facts or a policy summary for any insurance policy they have available. These are perfect if you want a quick overview, and to see instantly what cover the policy does, or does not, provide.

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