

A Guide for The Perplexed

**PROPERTY INSURANCE &
WHAT YOU NEED
TO KNOW**



MELIA COVER

Melia Cover's guide to understanding
some key terms and concepts behind
property insurance.



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Property Insurance: A Guide for The Perplexed

Protecting a property starts long before a claim is made. This short guide walks landlords through the key areas insurers scrutinise most, so we can secure your cover with confidence and avoid nasty surprises.

1. Sums Insured

Understanding the importance of accurately valuing your building ensures you are adequately protected against potential claims.

The building sum insured is the maximum amount of money your insurance company will pay out to repair or completely reconstruct your property if it is damaged or destroyed.

With many policies, you will see a figure for declared building value and a **separate** figure for building sum insured. If the building sum insured is inadequate, then you risk not being paid the full amount in the event of a claim.

With most insurance policies, a condition of average applies, meaning that if the property is underinsured, any claim may be reduced proportionally.

For example, if the true rebuild cost is £200,000 and your declared building value is £150,000 (75% of declared building value), if you have a claim for £40,000, insurer will only pay £30,000 (75% of the claim).

2. Reinstatement Cost Assessment

The declared building value must include all costs required to rebuild the property from scratch including:

- Temporary works (e.g. scaffolding)
- Rebuilding to current building standards
- Professional & legal fees (including architects, surveyors, engineers, planning and regulation fees, legal costs)
- Labour & materials
- Demolition
- Debris removal and site preparation

For this reason, it is always recommended to obtain a reinstatement cost assessment (RCA) from a RICS qualified surveyor, particularly for larger properties.

For the majority of properties, a remote RCA can be purchased cheaply. The insurance premium is based on the declared building value – if you are overinsured, you will be overpaying based on the declared building value. If you are underinsured, this could be catastrophic in the event of a claim.



3. Unoccupancy Risks

Understanding unoccupancy impact and coverage

Unoccupied properties present a higher risk to insurers. It's crucial to disclose if a property is unoccupied at the policy's inception. If it becomes unoccupied during the policy term, this must also be communicated to maintain coverage within a grace period of 30 -90 days.

Most standard policies limit cover to Fire, Lightning, Explosion, and Aircraft (FLEA) while unoccupied. Notably a FLEA policy will not cover escape of water, flooding and malicious damage. Due to the higher risk of damage, unoccupied policies should be designed specifically to cover for wider perils.

Additional conditions of an unoccupied policy include:

- Inspections of the property at regular intervals. The frequency will depend on the policy, but generally between 7 and 30 days.
- Gas and electricity must be turned off at the mains.
- Water supply must be turned off and the system drained.

Many insurers will not cover a property whilst it is undergoing structural work. Many policies will also exclude damage arising from the work of any contractors and will not include cover for damage to the uncompleted contract works.

It is therefore important that you inform your broker prior to structural works and/or tenancy changes, and take out a specialist policy when required.



4. Tenant Types

Different Tenants, Different Risks

Residential Properties

For residential properties, it is of vital importance that the correct tenant types are disclosed to the insurer. This includes:

- DSS tenants,
- Asylum seekers,
- Supported living accommodation

Insurers will also only provide cover if there is tenancy agreement in place directly between the insured and the tenant, and not through a local authority, housing association or guaranteed rent company.

Many insurers will also not cover, or will apply extra conditions to houses of multiple occupation (HMOs). If the property is let for short term accommodation (e.g Airbnb), this will also have to be disclosed to your insurer or broker.

Commercial Properties

Certain types of commercial occupancy may be considered higher risk and may therefore attract a higher premium.. In some circumstances, an insurer may be unable to provide cover for a particular type of business.

Examples of occupancies that may require additional consideration include:

- Manufacturing – particularly where machinery, heat, or industrial processes are involved.
- Storage of flammable or hazardous materials.
- Restaurants and takeaways – where cooking and increased fire risks may be present.
- Public houses and licensed premises – which may involve considerations relating to alcohol.

Always ensure that the insurer or broker has been provided with accurate and up-to-date information about how the property is occupied and used.



5. Other Common Exclusions

Understanding what isn't covered is essential for landlords



When insuring a property, it's crucial to be aware of common exclusions. Many insurers will not cover items such as fitted carpets and curtains under building insurance. Ensure you have adequate contents cover, even if your property is unfurnished, to protect your investment thoroughly.

Additionally, legal and health & safety compliance is often required. Certificates, such as EICRs and gas safety checks, must be in order. **Malicious damage** caused by tenants typically has limited cover, making it essential to understand these exclusions when selecting your policy.

Many policies will also exclude damage caused by portable heaters, scooters and e-bikes, damp, wear and tear, and terrorism.

Not all policies are equal when it comes to the level of cover provided. Better policies will have far fewer exclusions and much broader cover. They will generally be slightly more expensive, but you will be covered for when you need it most.



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Not all policies are equal.

In summary, there is plenty to be aware of when insuring your property.

Working with an experienced insurance broker can help ensure that all relevant information is accurately disclosed to the insurer, and that you understand the cover being provided.

Make sure your portfolio is properly secured and not underinsured!

Reach out and we will help out.



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