



The essential owners guide to blocks of flats insurance

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Expertly prepared
by FlatGuard for



Basis of cover

We recommend that your Block of Flats should be insured on an “All Risks” basis of cover.

Examples of Insured Risks and Events

- Accidental Damage
- Escape of Water i.e. Burst Pipes and Water Ingress
- Sprinkler Leakage
- Subsidence, Heave and Landslip
- Lightning
- Storm
- Flood
- Fire
- Theft
- Malicious Damage
- Explosion
- Riot and Civil Commotion
- Earthquake
- Aircraft
- Impact by Vehicles
- Terrorism (Optional and covered at an additional premium)
- Trace and Access

Examples of Principal Exclusions

- Wear and tear
- Gradually Operating Causes; Gradual Deterioration & Change
- Mechanical or Electrical Breakdown
- Defective Building Design & Materials
- Erosion, Rust, Own Collapse & Normal Settlement of a New Structure
- Damage to structures in the course of erection
- Unexplained Loss or Damage
- Micro-organisms i.e. fungus, mould, rot
- Poor/Defective workmanship
- Spontaneous Combustion
- Frost
- Ionising radiation
- Gradual Pollution
- Fines or Penalties
- Fraud, Extortion & Dishonesty
- War
- Terrorism (unless insured)

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Buildings vs Contents – what's covered where?

Buildings

A buildings policy will ordinarily cover the fixed structure, foundations and anything that would damage the structure in an attempt to remove it, eg:

- ▼ Fixtures and Fittings
- ▼ Building improvements / renovations
- ▼ Built-in wardrobes
- ▼ Fixed and built-in kitchens
- ▼ Any bonded flooring
- ▼ Fixed bathrooms including fitted sanitary ware

(Subject to the terms of the Building's Head Lease and policy wording)

Contents

Generally these are any removable items within your flat and communal areas, eg:

- ▼ Carpets
- ▼ Free standing furniture
- ▼ Free standing appliances
- ▼ Your personal belongings
- ▼ Your valuables
- ▼ Your art work
- ▼ Clothing

Is a Contents Policy really necessary?

As the owner of one or more flats, you'll be familiar with Buildings Cover. But what about Contents Insurance?

Most head leases are written in such a way that, as a flat owner, you will need to insure your own personal contents and possessions in your flat.

Normally included in a standard home owners' Contents Policy is Public Liability cover, which will protect you against legal liabilities from third-party claims arising from use of your home.

What other cover is needed?

- ▼ If you employ any staff on a fixed pay-roll you'll need Employers' Liability Insurance
- ▼ If you are a landlord, you may wish to insure your rental income.
- ▼ Have you recently undertaken any renovation works within your flat? If the building has not recently been valued for insurance purposes, you should check tenants improvements cover is included in your contents policy.



The Nine Point Checklist

Policy wordings can vary significantly, especially when cover is obtained online. Here are some key areas to pay particular attention to:

Total Buildings Declared Value	Make sure your Buildings Declared Value accurately reflects the current total reinstatement cost, including demolition and professional fees, to avoid any penalties for under insurance.
Day One Cover, with an adequate uplift	Under a Day One policy, the Buildings Declared Value is declared at inception and the insurer will include an inflation provision to cover the effect of inflation over the total rebuild period (not the policy period). NB: The Buildings Declared Value must be accurately set or determined by a professional valuation for the 'Day One' cover to be effective.
Communal Contents Insurance	Make sure that your policy has sufficient cover to replace any contents, including carpets, in the communal areas.
Property Owners Liability limit – including cover for Legionellosis and sudden and unforeseen pollution clean-up.	Property Owners Liability will protect you in the event you become legally liable for claims brought by a third party. Due to the nature of a block of flats and their level of activity, there is a greater exposure than that of other types of property eg, a family house. It is therefore essential that the Indemnity limit of your policy is no less than £10,000,000 and that it provides sufficient cover extensions in case of a major incident.
Employers' Liability	Employers' Liability cover is essential even if you do not directly employ staff, eg you employ agency staff or casual labour.
Legal Expenses	This covers the potential costs of legal action brought against you by another individual or institution. Cover is subject to the policies terms and conditions and actions taken.
Trace and Access	Trace and access covers the cost of damage caused whilst locating the source of a leak following an incident. As it can be extremely difficult to source and trace a leak, ensure your policy includes a high cover limit for any one incident. (FlatGuard is £75,000)
Residential Alternative Accommodation (AA) and Loss of Rent (LOR)	This cover pays for Alternative Accommodation and Loss of Rent costs whilst a flat(s) is deemed uninhabitable following an insurable loss. Your policy should also cover any loss of service charges or ground rents, which may still be payable in the event of a claim. The rebuild period for a block of flats can be lengthy, so it is important that the indemnity period is sufficient. We recommend that the indemnity period should be no less than 36 months, covering you for at least 30% of the Buildings Declared Value. A policy can be extended to insure any rent from commercial units on request.
Additional Claims Preparation and Supervision	Claims can be complex and time consuming to present, and professional help is sometimes required. Your policy should provide you with insurance cover to pay the costs of any additional management and professional fees incurred in the preparation of your claim.

Warranties and Conditions to look out for

The majority of Blocks of Flats insurance policies contain warranties and conditions. They are terms in your policy that require you to do something.

It is important you understand what it is your insurer requires you to do or to have in order to benefit from the cover.

A reputable, specialist broker will ensure that onerous or stringent warranties and conditions, which could be to the detriment of the residents, are not applied.

Do not accept a policy which contains any of the following warranties and conditions:

Average Condition

Most blocks of flats policies will have an "Average Condition", which will be problematic if your block is under-insured.

Eg: Your block is insured on a Buildings Declared Value of £10,000,000 but the actual cost of reinstating the building is £20,000,000. The building suffers a valid claim causing £50,000 of repair costs. Because you were 50% under insured at the time of the loss, the block's insurer will only pay you half of total claim cost (£25,000).

It is essential to make sure that the building is adequately insured by appointing a RICS accredited surveyor to undertake a reinstatement valuation every 3 years. Do not accept an insurance policy that will not delete the 'Average Condition' following the receipt of a professional insurance valuation.

A policy that deletes the 'Average Clause' will guarantee that any valid claim will be fully paid, avoiding any unwelcome under-insurance penalties.

Unoccupied Property Condition

Most block policies will have an "Unoccupied Property Condition", which sets out obligations and responsibilities once the property is deemed vacant. Do not accept an insurance policy which will apply the condition and exclude essential covers (i.e. escape of water claims) when one or more flats in the building become vacant. FlatGuard triggers only if the whole block becomes unoccupied.

Bona Fide Subcontractors Condition

Any policy containing a 'Bona Fide Subcontractors Condition' should be avoided. This onerous condition requires that you monitor and maintain records of the insurance policies of any employed sub-contractors who you engage.

Flat Roof Inspection Condition

It can be very costly and time consuming to comply with a policy which has a 'Flat Roof Inspection Condition'. This requires that flat roofs are inspected by a qualified builder or property surveyor at specified periods and that any defects identified be immediately repaired. However flat roofs do deteriorate and it is prudent to ensure they are water tight from time to time but without it being conditional to policy cover.



Case Study

Mr & Mrs Smith rent an apartment. Overnight, a pipe bursts and causes a leak.

On waking, the couple find murky brown water has come through the ceiling and is running down freshly painted walls. The water has warped fitted furniture, soaked into the wooden flooring and damaged a made to measure sofa. The water has reached the bedroom door, staining the carpet.

A neighbour, arriving to offer help, slips on standing water which has not been cleaned up. Suffering a broken arm, she is unable to work for six weeks.

What is covered and by whom?

Action needed	Is it covered?	Who will pay?
Tracing and accessing the source of the leak	Yes	Building Policy
Repairing the pipework	Not covered, unless it's proved than an 'insurable risk' caused the pipe to burst i.e. impact	Either the Service Charge or Mr & Mrs Smith, subject to the lease and management rules
Redecoration of the damaged walls and ceiling	Yes	Building Policy
Repair or replacement of the fitted furniture	Yes	Building Policy
Repair or replacement of the wooden floors	Yes	Building Policy
Repair or replacement of the made to measure sofa	Yes	Mr & Mrs Smith's Contents policy
Cleaning of bedroom carpet	Yes	Mr & Mrs Smith's Contents policy
Compensation for neighbour's injuries	Yes, if Mr & Mrs Smith are found to have been negligent	The public liability section of Mr & Mrs Smith's contents policy

Policy Excesses

As with most policies, both the Buildings and the tenants' Contents Insurance policies would apply an Escape of Water excess, typically £250 - £350.

Negligence

You may not have intentionally done anything to cause damage or harm, but because you did not take reasonable precautions, you may be considered negligent and responsible for a claim.

Therefore, it is essential that your Blocks of Flats and flat owners Contents policy provides adequate and sufficient Property Owners Liability and Public Liability cover in case you are proved to be negligent.

Keeping your claims – and your premiums – as low as possible

There are many factors taken in to consideration when an insurer calculates your buildings premium, such as construction, location etc.

However the major driver of the premium is claims - especially when there is a high frequency of small claims that could have been easily avoided.

More than half of all claims on flats are for damage caused by water leaks.

Insurers are risk averse and they become increasingly nervous when there appears to be a claims culture with a history of incidents. This will usually have a negative impact on a policy which will be reflected in your insurance premium.

Keep your premiums as low as possible by:

- Accepting higher but still palatable policy excesses to deter residents and tenants from making unnecessary claims.
- Reviewing what action can be taken against tenants who have a history of claims
- Introducing simple Risk Management strategies to help reduce the number of claims, eg.
 - Regularly check sealants in bathrooms
 - Inspect accessible pipework and wiring
 - Keep pipes warm by having your heating on permanently over the winter months
 - Keep your household appliances in a good state of repair at all times
- Making sure residents act quickly and take reasonable proactive measures when they identify a potential claim, eg: turn off the water at the stop tap if there is a leak, call out a contractor immediately to mitigate the loss and then call the managing agent or insurance broker for professional advice and to notify insurers.
- Cooperating with contractors, insurers and your managing agent. Wasted time equals wasted money.
- Telling your managing agent straight away if you notice any problems that may potentially cause or lead to a claim. Most things can be resolved before they turn into a problem.





Blocks of Flats, Expertly Insured



*Insurance innovation
spanning 40 years*

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