

PART ONE

Cover your assets

Are your landlords' properties covered? **Joanne Christie** says that with increasing pressure on their margins, any uninsured damage could leave them scrabbling to survive.



With the Government's new tax restrictions on buy-to-let property now in play and the letting fee ban looming ominously on the horizon, both landlords and letting agents may soon be feeling the pinch. With profits already squeezed, nasty surprises such as uninsured damage or rogue tenants are likely to be more catastrophic than they were in the past, for both the landlord losing rental income and the letting agent losing commission on that income.

It makes sense then that letting agents ensure that their landlords have the right insurance in place – and there's an added incentive – doing so can do not only protect your income, but also boost it.

■ BACK TO BASICS

A surprising number of landlords don't realise that they need insurance other than typical buildings insurance, this is particularly the case for those that are moving out of a property they've been living in, says Jane Guaschi, Business Manager at Direct Line Group. "A lot of landlords don't know that they need proper landlord's insurance. They think 'well it was my home and I've moved out and am letting it out to tenants,' but generally

speaking your general home insurance won't cover that," she says. "At the letting agent stage it would be a good time to say 'you need to look at insurance now.'"

Landlord insurance will cover landlords for public liability should a tenant or other visitor suffer damage at their property, and also, usually as an optional extra, malicious damage. Although rare, damage by tenants can be very costly to rectify and as they are authorised to be in the property, many standard landlord policies will not cover damage caused wilfully by tenants.

"When you're evicting people they might have a bit of a grudge so they might damage things," says Guaschi. "One of the things it also covers, which people often don't realise isn't covered by their normal buildings insurances, is cannabis farming. If your tenant sets up a cannabis farm in your house, that is deemed to be deliberate malicious damage. It is happening increasingly often in residential properties and even in rural areas, so you can't be complacent."

Claims analysis by Direct Line for Business revealed that one in 11 claims for malicious damage on a property with a tenant between 2014 and 2015 were in relation to cannabis cultivation, with the average value of a claim 59 per cent higher than non-cannabis related claims.

■ THERE ARE NO GUARANTEES... OR ARE THERE?

The other important, but often overlooked, insurance for landlords is rent protection, sometimes called rent guarantee. This cover is rarely included as standard on landlord policies but it can be invaluable in the unfortunate event of a tenant not paying the rent. Even with the best referencing processes in place, good tenants can quickly turn into bad ones if they lose their jobs or a relationship breaks down. According to Your Move's Buy to Let Index for April, the number of tenants in arrears reached 9.05 per cent in March.

Annette Ross, Lettings Director for North West London agency Parkheath, says that given the types of tenants its offices in Belsize Park, Kentish Town, Kensal Rise, West Hampstead and South Hampstead attract, non-payers tend to be few and far between, but that rent guarantee policies can provide landlords with "peace of mind".

"Some landlords take it up some landlords don't," she says. "We advise them to, especially if they've got any reservations or are unsure about the tenants or what they do for their jobs."

"There are very nervous landlords out there who will say 'I don't want to take this tenant' and we won't understand why because we've met them, but perhaps on paper their income doesn't look so straightforward. So we can say to those landlords 'look, if you're really worried then why don't you take out the rent guarantee and it is a couple of hundred pounds and you'll have peace of mind.'"

Parkheath earns a commission for referring landlords for rent guarantee



“We could earn commission by referring landlords to our provider, we choose not to. “It isn't a profit source, it's just an additional service.” Neil Marshall Marshall Vizzard

policies, but she says the benefits are not only about earning commission, but also meeting landlords' requirements.

Indeed, Neil Marshall, partner at Watford agent Marshall Vizard, says while it could earn commission by referring landlords to its provider, it chooses not to. "We don't use it as a profit source just as an additional service.

"I think we need to be able to offer it to people because there is a small sector of landlord that will take rent guarantee insurance out on every tenancy without question so part of our role as their letting agent is that we need to be able to give them the ability to take that out should they want to."

■ STAND OUT FROM THE CROWD

Sim Sekhon, Managing Director at Legal for Landlords, says agents are increasingly realising that rent protection policies can prove to be an important acquisition and



With our tenants, non-payers tend to be few and far between, but rent guarantee policies can provide landlords with peace of mind. **” Annette Ross** Parkheath

"We would make a claim to the insurance company who would not only cover all of the unpaid rent, but also all legal costs should the tenant need to be evicted. The policy will continue to cover rental payments until vacant possession is achieved, thus maximising the returns on the landlord's investment. We work with the allocated solicitors in order to achieve this, meaning the landlord can remain hands-off and still receive their monthly rent as normal."

Since beginning to offer such policies to landlords five years ago, Humphreys says it

letting agent – certainly with legal expenses and rent guarantee they will know they are protected in some way, but it is also a very good income generator for them for very little work. All we need is a name and phone number from them, or for them to get the landlord to phone us."

O'Donnell says too many agents fail to recognise this potential to earn commission for referrals, and though Sekhon agrees, he says there have been signs of a shift in agents' attitudes since the letting fee ban was introduced. "We don't pay a huge amount in commissions — let's say we paid out over 150k in commission to agents in the last financial year, in March alone we paid out 26k in commissions. All of a sudden because there is a ban on tenant fees then agents are looking to recoup some of those losses and start to work some commissions in," he says.

Eddie Hooker, CEO at Total Landlord Insurance, says it has recently set up an affiliation scheme where agents can earn commission for referring landlords. "Once the ban on tenant fees comes into force, landlords will be the most important factor to an agency's bottom line, so looking at different services, income streams and partnership affiliations to offer a more comprehensive service package is a good way for agents to retain and grow their landlord client base."

Both landlords and letting agents have taken a battering from government policymakers recently with a raft of new legislation that for the most part, could not reasonably have been foreseen. But many of the other risks in this business can be foreseen and therefore protected against with the right insurance. And with a bit of effort, savvy agents can even use insurance referrals to recoup some of the losses they may soon face from the letting fees ban.

What to watch out for with insurance policies

- ▶ Leasehold properties are usually covered by the freeholder or managing agent's buildings insurance policy, but there may be exceptions and fittings and fixtures may not be covered. Landlords should check their lease carefully and if necessary, arrange cover for contents and public liability.
- ▶ Local authorities may require a higher than standard level of public liability

- cover so if renting to these, landlords may need to upgrade their policy.
- ▶ Some policies will not cover tenancies to benefit recipients or students so it's important landlords know what tenant type/s their insurance covers.
- ▶ Short lets such as Airbnb are very unlikely to be covered by standard landlord insurance. Landlords will need specialist cover – Rentguard has a suitable policy available.

retention tool. "When they are going up against other firms to win instructions it gives them another tool, to mention that they have these products as well.

"It is good for client retention as well because if the landlord has got that protection tied in with that agent the chances are they will renew. Our renewal rate on rent protection is about 65 per cent. Sixty-five per cent of landlords will renew that insurance and then stay with that agent as well."

Lime, a letting agent in Hull, goes even further and offers a service where it takes out policies in its own name so on the rare event a claim does arise, it is able to handle the process itself, taking all the hassle out of the process for landlords.

"By arranging the policy through Lime the landlord will get a heavy reduction in the cost of the product and as the policy refers to Lime we can handle the full process on their behalf should a claim need to be made," says the agent's Managing Director Sam Humphreys.

has proven hugely popular, with an estimated 60-65 per cent of landlords on its books now signing up. The high take-up is a win-win for both parties, he says.

"Not only does it make our conversations to landlords easier when informing them of non-payment, but as we are in a commission-based industry, should the tenant fail to pay their rent, Lime also suffers a loss of income. With the rent guarantee policies this isn't the case as we can still deduct our management fee from the claimed rent."

■ EARNING POTENTIAL

Even for agents that may not wish to go quite this far, there are plenty of opportunities to earn commission simply by referring clients, says Kim O'Donnell, Director at Rentguard. "Ninety-nine per cent of Rentguard's income is generated from relationships with distributors. Those distributors are primarily either letting agents or high street insurance brokers.

"There are a number of benefits to the

CONTACTS

- ▶ **Direct Line** www.directline.co.uk
- ▶ **Endsleigh Insurance Services** www.endsleigh.co.uk
- ▶ **Hamilton Fraser Insurance (PRS)** www.hamiltonfraser.co.uk
- ▶ **HomeLet** www.homelet.co.uk
- ▶ **Legal 4 Landlords** www.legal4landlords.com
- ▶ **Rentguard** www.rentguard.co.uk
- ▶ **Van Mildert** www.vanmildert.net ■