# 12 Most common pitfalls when insuring your rental property

# An Introduction

The simple fact that not all insurance is the same makes it extremely difficult to weigh up the benefits of one policy versus another, and so often the glossiest brochure or the cheapest price wins out.

When it comes to insuring a residential rental property the differences between policies can be quite amazing. With over 25 years experience in landlord insurance, Brett Clarke will help identify some key mistakes that are made all too often.


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# 1. Buying on price alone

Like any business, Insurers are out to make a profit, effectively by paying out less in claims than they receive in premiums. Although price must always be considered as a factor in your buying decision the reality is that in all likelihood, cheap cover is likely to represent poor value when it comes to making a claim.

The adage "When you pay too much you may lose a little, but when you pay too little you may lose a lot" has never been so true as it is with landlord insurance. The number one priority must always be to ensure the right cover is being obtained, you should look to obtain "value" rather than "cheap". If there are risks that won't be covered, make sure they're risks you are willing to wear yourself should a loss occur.

# 2. Deliberate fire by tenants

Believe it or not some Insurer's will tell you they will not pay claims if a tenant has deliberately started a fire on the grounds that they exclude "malicious damage by the tenant". This is often simply a case of companies not understanding their own policies well enough, however when it comes to the risk of a total loss (your property burnt to the ground) you simply cannot take any chances.

One simple question of "do you pay a claim where the tenant maliciously sets fire to my property" should give you some peace of mind, or tell you to look elsewhere.

# 3. Excesses

When you make a claim there will often be a portion that you must pay (known as the excess) before the claim is paid.  Some Insurer's charge ridiculous excesses which may almost render a claim worthless.

Particularly watch out for those policies that charge an excess on Loss of Rent claims, you will benefit far more on policies that have a nil excess on loss of rent, and reasonable excesses on damage claims.

Ideally the policy should allow your bond to be used to pay the excess.

# 4. Underinsurance

Whether it be replacement of the whole building, your contents, or simply the risk of rent loss, your cash flow and assets are the lifeblood of a successful investment.

Saving a few dollars by insuring for less than the true replacement value is simply ridiculous, and remember, insurance for your rental property is generally tax deductible.

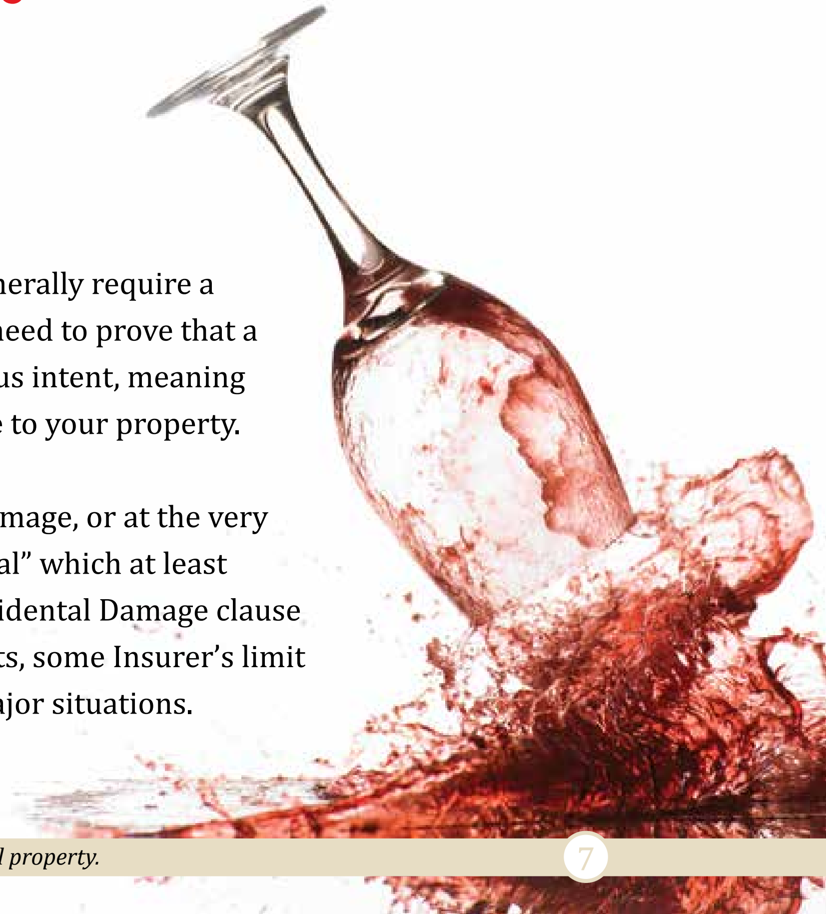
# 5. Malicious Damage by the Tenant

10 years ago very few policies covered Malicious Damage by the tenant, today there are far more with it included but it is something to check carefully as the limits and excesses can vary considerably.

The consequences if not included can be quite horrific.

*But read on for the catch...*

# 6. Accidental Damage



## Here's the catch.

To prove Malicious Damage you will generally require a police report, and technically you may need to prove that a tenant caused the damage with malicious intent, meaning that their sole aim was to cause damage to your property.

Look for a policy that has Accidental Damage, or at the very least includes "deliberate and intentional" which at least broadens it a little.  Also ensure the Accidental Damage clause applies to both the building and contents, some Insurer's limit it to contents leaving you exposed in major situations.

# 7. Check the Qualifying (or disqualifying) rules

Some policies will make putting a policy in place very technical, although you may not find this out until you go to make a claim, unless you're an expert on fine print.  Some policies require the tenant to not have been in arrears at any stage during the preceding two months where a breach notice could have been issued, or else some cover may be restricted.

Look for a policy that keeps it simple unless you are 100% sure of your tenants history in strict accordance with the legislation and the policy conditions.

# 8. Check for complete cover

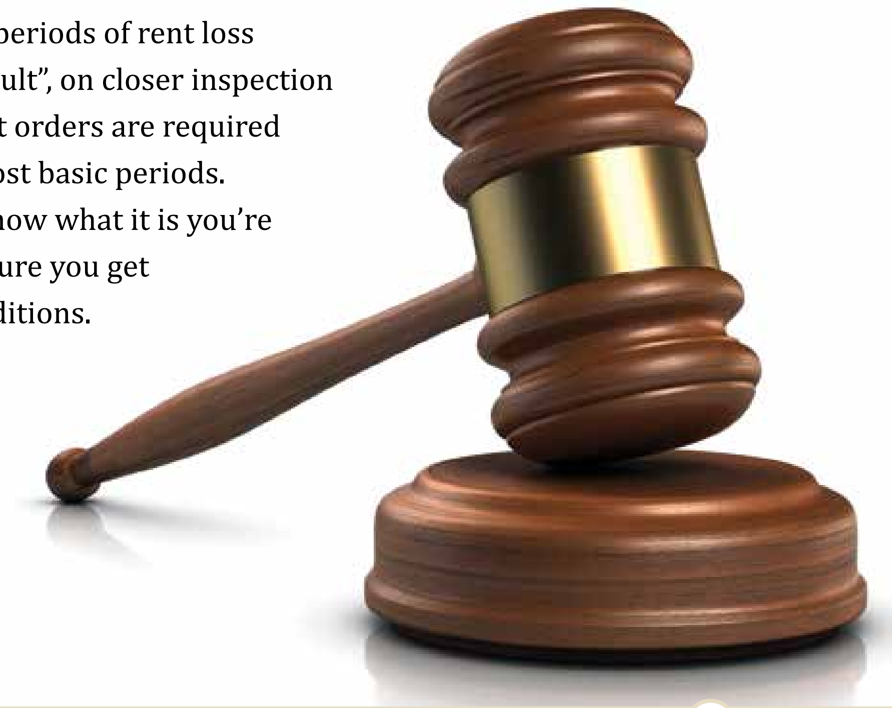
Policies vary in the way they cover your property. If you have a house you may need two policies, a building defined events policy as well as landlord policy.

Some of the combined policies that have hit the markets in recent years may fall well short of the mark when it comes time to make a claim, so don't be fooled by the lure of the "big name" Insurer and the promise of a low price, there's generally a reason the premium is so attractive.

That's not to say combined policies are no good, just be sure it is a "genuine" landlord policy and not simply a pumped up household policy.

# 9. Court orders

Some policies talk about long periods of rent loss being covered simply for “default”, on closer inspection you are likely to find that court orders are required for anything other than the most basic periods. That’s okay, but be sure you know what it is you’re getting so that you can make sure you get the most out of the policy conditions.



# 10. The Body Corporate already insures my property

## Wrong.

The Body Corporate (or Owners Corporation) may be required to insure the building and common grounds in a strata-titled property, but the moment someone steps inside your unit/townhouse, the problem is yours.

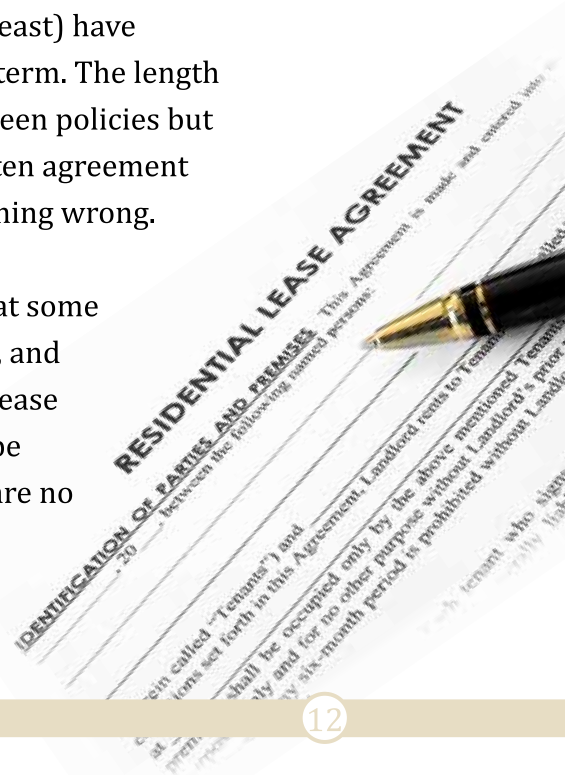
The most significant risk being that of liability should someone injure themselves inside  your premises and place you at fault. The legal bills alone can be catastrophic.

These days your policy should include at least $20,000,000 liability cover. In all honesty, you can't have too much.

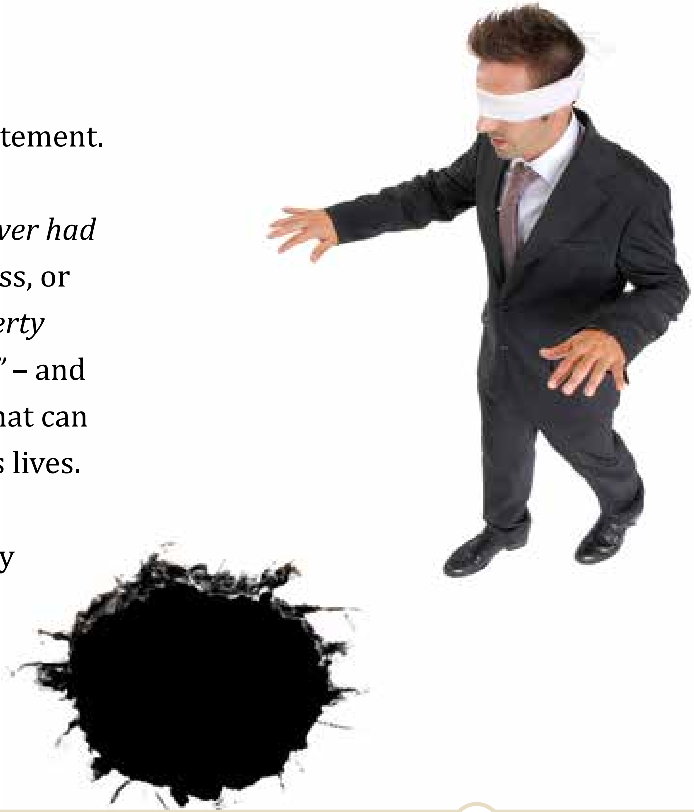
# 11. Periodic Tenancies or Lease Continuation

Most landlord insurance policies require the tenant to (at least) have initially been on a written lease and most likely for a fixed term. The length of the required fixed term of the agreement may vary between policies but the simple logic is that there needs to be some sort of written agreement in place for the tenant to be deemed as having done something wrong.

What has come to light in more recent years however is that some policies will not pay claims if the written lease has expired, and the tenants have simply rolled on to a “periodic lease” or “lease continuation”. This could be a major problem so needs to be checked immediately, you can’t afford to find out that you are no longer insured at the time when you try to make a claim.



# 12. When you figure out “you don’t need insurance”



To say I’ve heard them all would be an understatement.

*“My tenant has been there for 6 years and I’ve never had a problem”* – that’s until the job loss, or the illness, or the marital dispute. *“That’s what I pay my property manager for, to make sure I don’t have problems”* – and property managers are generally clairvoyants that can foresee all the problems that happen in people’s lives.

Insurance is what we call a “grudge buy”, nobody wants it, but you’re running a business, and to not protect yourself is just plain dumb.

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RERCCU016-161213