

Ensuring adequate insurance

Last reviewed: March 2018

Who insures and why?

Whether you're a landlord or tenant it's important to ensure the property you own or occupy is adequately insured to protect each party's position against risk.

It is usually a landlord's responsibility to insure their property. This works to their benefit as they can make sure they are happy with the insurance provider and level of cover offered by the policy. The cost of the policy is then recovered from the tenant as insurance rent under the lease.

What is insured? Against what risks?

A landlord will want to insure its property for the full reinstatement value, including professional fees, demolition costs and a reasonable inflationary increase. They will also want loss of rent protection, usually for a period of three years, as a tenant's rent payments will be suspended in the event of damage by an insured risk.

The risks commonly insured against include the usual fire, flood, impact, subsidence, vandalism and associated risks as well as natural causes like lightening and earthquakes and more recently, acts of terrorism. The landlord will also want to insure against public liability so that it is protected against claims for personal injury or damage to possessions which may arise from incidents connected with the property.

What if there's damage?

If a let property is damaged by an insured risk the process will be governed by the terms of the lease. If the damage is sufficient to make the property unfit for occupation or use by the tenant then the tenant's rent payments (or a proportion of them depending on the extent of the damage) will generally be suspended. The landlord can then claim against its loss of rent insurance to supplement the lost income.

The landlord will be under an obligation to reinstate the property so far as it is able to. If there are issues with obtaining the necessary planning consents or the landlord is otherwise prevented from carrying out the reinstatement by events outside of its control then that obligation will generally fall away. Either party will then be able to bring the lease to an end by giving notice at the end of a set period, which is usually equal to the loss of rent insurance period.

Do tenants insure?

A tenant will want to obtain contents insurance to protect its possessions and public liability insurance in relation to the running of its business from the property. A tenant may be obligated to maintain these policies under the terms of their lease.

In limited circumstances it may be preferential for the main insurance obligation to be reversed so that the tenant insures the property instead of the landlord. For example, if the tenant is operating a specialised business which comes with its own insurance implications and specific risks, the landlord may prefer to simply require that the tenant insures against all usual risks and those commercially acceptable to the

industry. In those cases the obligation to reinstate will also rest with the tenant, who will pay over the insurance proceeds to the landlord if this can't be achieved.

Contacts

A full list of contacts can be found [here](#).

This guide is only intended to give a summary and general overview of the subject matter. It is not intended to be comprehensive and does not constitute, and should not be taken to be, legal advice. If you would like legal advice or further information on any issue raised by this guide, please get in touch with one of your usual contacts. © 2018 MOURANT OZANNES ALL RIGHTS RESERVED