

My landlord insurance *nightmare*

Helen Collier-Kogtevs from Real Wealth Australia investigates whether investing in insurance is really all it's said to be

As an investor with many properties in my portfolio, I've spent many thousands of dollars on insurance premiums in order to protect my assets. I also have insurance for our own home, medical, life, car and even pet insurance for our two furry little pooches.

In total, I spend thousands of dollars each year protecting everything, and not once have I made a claim... that is, until recently.

I'm a big advocate of landlord insurance and we have a policy on each of our investment properties, as it protects us against floods or fires, and provides coverage if the tenants don't pay rent or damage the property.

I make sure I read the policy thoroughly to ensure that I understand exactly what I'm getting and I'll often add in extras – and pay a higher premium – just to be certain that I'm fully covered.

In other words, I prefer to be fully protected than to concern myself too much about the cost of the insurance.

I also prefer to have building, contents and landlord insurance included in the one policy, as it's more convenient to track and pay premiums.

I elect to pay our insurance premiums by the month so as to coincide with monthly rent receipts from our property managers, which is a benefit that's only offered by a handful of insurers and therefore limits us as to who we deal with.

Until recently, we've had all our insurance policies with one of the major providers. Then, we were enticed by our bank manager to move them all to the insurance arm of their institution, as they offered us a heavy discount on the policy premiums, better insurance coverage and reduced banking charges.

Each policy included a \$300 excess per property, and the landlord insurance component covered loss of rent, malicious damage, indemnity insurance – but, at our discretion, didn't cover accidental damage.

Enter the tenant from hell

Shortly after the new policies took effect, we encountered our first-ever tenant from hell. It was totally unexpected as the tenant had been there for two years, and he'd led a fairly quiet life until this point. He paid his rent, albeit a little late sometimes, and

unfortunately didn't look after the gardens very well, but he was generally a good tenant.

I interviewed the original property manager when we first leased the property. However, over the years the real estate agency had sold its rent roll to another agency, which in turn on-sold it 12 months later to another agency.

On both occasions, I didn't interview the new property manager – my mistake – and this is partly why I ended up in the situation that I did: with a tenant who was three months behind in rent and a bill for \$4,600 to repair the damage he'd caused.

Claiming the damages

My property manager quickly lodged a claim with the Victorian Civil and Administrative Tribunal (VCAT) for release of the bond money to me, which was granted in total. VCAT stated that the bond could be used for loss of rent and/or damage that had been inflicted by the tenant on the property.

This was going to be the first serious test of our new insurance company, the insurance policy, and how well it processed our claim – and what a

surprise I received. I quickly learnt that not only are there ‘tenants from hell’ – there are also ‘insurers from hell’ and I’d struck a beauty.

I firstly rang the insurer and asked them for a copy of the process that I needed to follow when lodging a claim. They promptly forwarded it to me and lodged a notice of claim, which included a claim for malicious damage to the property.

The damage included:

- damaged walls
- car engine oil on the carpet
- clothes line ripped off the fence
- broken cupboards
- torn curtains

The insurer advised me that, because the claim was for malicious damage, I needed to firstly contact the police and have them lodge a report. I rang the local police, and they advised me that they considered the incident a civil matter between the insurer and me, and therefore wouldn’t attend. I went back to the insurer with this, and they then advised that they’d send an assessor to view the damage. The insurer employed a third party firm to assess claims.

I met the assessor at the property and he viewed the damage. I rang him a few days later for his assessment, and he advised verbally that he was going to recommend to the insurer that there were no grounds for the claim for loss of rent or malicious damage.

When I asked why, he said that the property had been sublet and therefore didn’t qualify for the three months’ loss of rent claim. He also said that the damage wasn’t malicious in intent: it was accidental.

I queried how he distinguished between ‘malicious’ and ‘accidental’ intent, and he responded that accidental is ‘one-off’ damage, and that malicious is determined as multiple damages of the same thing.

That is, he pointed out, if there were several holes in the wall, it would be deemed malicious damage; just one hole in the wall was considered accidental. One broken window, one broken stove, one broken cupboard, one broken oven, one broken clothes line and one torn curtain – these were all deemed to be ‘accidental’ occurrences and not malicious.

www.yipmag.com.au

The assessor emphasised that in order to claim for malicious damage, the damage must have occurred in multiples of the same thing.

When I asked him how many houses had multiple stoves, ovens and dishwashers, he didn’t respond. I also asked him how you could accidentally tear a curtain in the middle, and he said that someone could have accidentally stood on it.

To say I was in shock would be an understatement.

The assessor emphasised that in order to claim for malicious damage, the damage must have occurred in multiples of the same thing

I waited for the official letter to come from the insurer and, true to its assessor’s word, the claim for loss of rent and malicious damage was knocked back.

I was now past being in shock: I was now ropeable.

Challenging the insurer’s assessment

I sent a letter of complaint about the assessment to the insurer and asked for its evidence of the property being sublet. I also challenged the assessor’s view of the malicious damage.

Following my complaint, the insurer undertook an internal reassessment of my claim and subsequently advised that it had agreed to the loss of rent claim in its totality, as the assessor didn’t have any evidence that the property was sublet. They’d also agree to repair all of the damage except for the hole in the lounge room wall, and the car engine oil that was on the lounge-room carpet. The total value of this damage was \$1,600.

I still objected to this assessment, and the insurer advised that the next step of appeal was to the Financial Ombudsman Service (FOS).

I promptly filed a letter of complaint, which entailed writing a complete history and my side of the incident, including a copy of all relevant correspondence. The FOS acknowledged receipt of the

correspondence and sent it to the insurer for comment. The FOS then assessed both sets of comments and ruled that the damaged walls and engine oil on the carpet wasn’t malicious and therefore agreed with the insurer’s assessment.

Should you even bother with landlord insurance?

My question here is, given my experience, are we as investors better off insuring our properties or not?

I believe that we should continue to insure as a valuable backup, but we need to be sure to take the following precautions:

- always interview your property managers, and make sure they have the proper processes in place to manage your property well. If you want to know what these processes are and what to ask, seek advice from your property mentor
- read and understand your insurance policies backwards. If you don’t understand what you read, call them for clarification
- make sure your insurer has an independent appeals process in place, and not just their internal appeals process

Don’t assume that, just because the insurer is linked to a major bank, it is scrupulous in its dealings with the public. Check it out thoroughly. Ideally, before signing up, ask the insurer if you can talk to several of their clients who have lodged claims successfully and unsuccessfully. 📌

Helen Collier-Kogtevs is an investor and the author of ‘47 Biggest Mistakes Made by Property Investors and How to Avoid them’. For more information visit www.realwealthaustralia.com.au

