



Leasehold Properties face flood insurance risk

The Financial Times, The Daily Telegraph and several specialist Insurance & Property publications have published stories that claim “Tens of thousands of leasehold properties face being left without affordable insurance because they will be excluded from a new national flood subsidy scheme”

The Association of British Insurers has stated publicly that it is “not true to say that domestic leaseholders [will be] excluded under “Flood Re”. People buying domestic leasehold properties will be [covered] for buildings and contents.”

“Flood Re” is a Government backed re-insurance business. It will charge a small premium on each household insurance policy (about £10 per annum) and use the funds raised to offset the otherwise unaffordable costs of insurance in some high flood risk areas.

As currently drafted it appears that most leaseholders may be excluded from the benefits of “Flood Re” in relation to their buildings insurance, though their contents insurance would still be covered.

The current drafting of the rules mean that only a property “occupied by the policyholder” is able to benefit from “Flood Re”. In the case of Leasehold Properties the policy holder will usually be either the Freeholder or the Residents Management Company. In either case they will not be an “occupying policyholder”.

This may lead insurers to consider Freeholders and Resident Management Companies who undertake the insurance obligations (in accordance with the lease terms) on behalf of all the leasehold owners in a building as “commercial”, not domestic policyholders. Commercial policyholders are not covered by “Flood Re.”

In response to these concern Defra, the government department in charge of the issue (and the floods), has published a statement saying “The Association of British Insurers has confirmed that there is no evidence of a problem of obtaining insurance for leasehold policies.” But this seems to be a very disingenuous spin of what has been agreed.

As Mr Kerr of the ABI explained, “..... the reason why leasehold properties, SMEs and private rented properties are not included in Flood Re is because there is no evidence that there is a similar problem across the country for those groups. The reason why “Flood Re” does not include them is because there is no evidence and in the MOU



(memorandum of understanding) consultation that there is systemic problem that exists for landlords or managing agents,” he said.

As such the ABI’s position is that Freeholder and Residents Management Companies (and or their Managing Agents) are in a strong enough commercial position to find and negotiate access to Flood Insurance.

Though we would agree that larger Managing Agents, like Remus, are in a position to get access to Flood Insurance, when put in the context of the current national flooding disaster, the cost of such policies without the benefit of Flood RE, may well be prohibitive to properties without an Flood Claims history at all.

The House of Lords is debating amendments to the “Flood Re” legislation (part of the current Water Bill), over the coming weeks. We recommend that all leaseholders lobby their Lordships their local MP’s to include provisions that specifically allow leaseholders to be covered, rather than hoping the industry will “sort it out”. For more information please see the DEFRA guide in our “Downloads” Section.

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