

The complaint

Mr C and Mr D complain that Royal & Sun Alliance Insurance Limited ("RSA") declined their claim for loss of rent following a claim on their block home insurance policy.

What happened

Mr C and Mr D are joint leaseholders of a flat in a block, which they rent out to tenants. The freehold is owned by a management company, of which they are shareholders. There is a home insurance policy for the whole block that is in the name of the management company and for which Mr C and Mr D are beneficiaries.

They made a claim following an escape of water at the flat. RSA accepted the claim however eventually declined the part of the claim for loss of rent. It said the policy didn't cover for loss of rent for a tenant who is sub-letting the property from the leaseholder. It said as the management company is the policyholder, it would therefore only apply where the rent was due to be received by them and not by Mr C and Mr D.

Mr C and Mr D didn't think this was fair and made a complaint. RSA didn't respond in the required timescale so they brought their complaint to this service.

Our investigator considered all the issues and recommended the complaint be upheld. She said as Mr C and Mr D were beneficiaries of the policy it wasn't fair for RSA to limit the loss of rent term to just the policyholder. So she thought RSA should consider their claim for loss of rent.

Mr C and Mr D accepted our investigator's outcome. However RSA didn't and asked for the complaint to be reviewed by an ombudsman.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The policy provides cover for loss of rent. It states:

'We will pay the:

(i) Rent (including ground rent) You should have received but have lost in respect of such flats.'

'You' is defined in the policy as 'Those named in Your Schedule as the Insured'. As the management company is listed on the policy schedule, RSA has said that it would only apply to rent that the management company would be due to receive, such as ground rent from the leaseholders.

I've considered this and I don't think it's fair for RSA to decline the claim for loss of rent on this basis. I'll explain why.

While the policy is in the name of the management company, it covers insured perils that arise in the flats owned by the leaseholders. Therefore the leaseholders are beneficiaries. And they are indemnified directly for problems that arise. And here RSA has accepted Mr C and Mr D's claim for the escape of water.

The policy doesn't list any exclusions to the loss of rent term, nor does it specify that this wouldn't apply to tenants of leaseholders. And I think when read in the context of the rest of the policy – that does provide cover for leaseholders – it isn't clear that this would only apply to rent due to the management company rather than individual leaseholders. In fact the policy term states 'including ground rent' rather than indicating that it is limited to just this. So in the circumstances, I don't think it's clear from the policy that the loss of rent term would only apply to payments made to the managing agent. I therefore don't think it fair for RSA to decline Mr C and Mr D's claim based on this.

For this reason, I agree with our investigator that RSA should now consider Mr C and Mr D's claim for loss of rent in line with the remaining policy terms and conditions. And if it settles the claim, it should pay 8% interest on the amount from the date of the loss to the date settlement is paid to make up for the time they've been without the money.

My final decision

For the reasons I've given, I uphold Mr C and Mr D's complaint and direct Royal & Sun Alliance Insurance Limited to:

- Consider Mr C and Mr D's claim for loss of rent inline with the remaining policy terms and conditions.
- Should it agree to settle the claim, it should pay Mr C and Mr D 8% interest on the amount from the date of the loss until settlement is paid.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Mr D to accept or reject my decision before 26 August 2022.

Sophie Goodyear
Ombudsman