

The complaint

Mr A and Mrs A complain ARAG Legal Expenses Insurance Company Limited ("ARAG") unfairly declined a claim they made on their landlord's rent protection policy.

What happened

Mr and Mrs A made a claim on their policy with ARAG in November 2024 after their tenant stopped paying rent. ARAG initially accepted the claim under the legal expenses section of their policy, but they later said this was a mistake and declined cover. ARAG said they wouldn't be providing cover for rent arrears as the policy required a satisfactory reference to have been obtained for the tenant, but ARAG didn't think this had been done.

ARAG said the reference check Mr and Mrs A had taken out reported an Individual Voluntary Arrangement ("IVA") against the tenant. ARAG said while this wasn't the same as a County Court Judgment ("CCJ") it was still viewed as an adverse credit marker and should have prompted further investigation. ARAG also said that affordability was an issue as they felt the tenant couldn't afford the proposed rent based on his annual salary. ARAG concluded that they would expect a landlord to check their tenant did not have any adverse credit and was able to afford the rent.

Mr and Mrs A felt this was unfair and raised a complaint which was ultimately referred to this Service. An Investigator looked at what had happened but didn't recommend that the complaint be upheld. He said he didn't think it was unreasonable for ARAG to conclude a satisfactory reference hadn't been provided and decline to cover the claim for unpaid rent. Mr And Mrs A disagreed and asked for an Ombudsman to consider the complaint, and I issued a provisional decision in which I said the following:

"The relevant rules and industry guidelines say ARAG has a responsibility to handle claims promptly and fairly and shouldn't reject a claim unreasonably. So, I've considered the policy terms to see what Mr and Mrs A were required to do. The terms say ARAG will:

"Pay your rent arrears while your tenant or ex-tenant still occupies your property up to a maximum of 12 months for any one claim, or the maximum number of monthly payments covered under your policy, whichever is lower; Provided that in both (a) and (b) you have:

- (i) Obtained a satisfactory reference for each tenant and each guarantor from a referencing service before the tenancy started;...*

**The reference must include: written references from a previous managing agent or landlord; an employer (or any other financial source); and a credit history check (including the Enforcement of Judgments Office, County Court Judgements and bankruptcy)."*

The wording doesn't define what "satisfactory" means in the context of the policy. So, in situations like this, I consider it appropriate to use a word's most common or everyday definition to decide what a reasonable interpretation of that word is. Having done so I think satisfactory would commonly be understood to mean "adequate or suitable; acceptable".

In this case, a reference was obtained from a professional referencing service. I've considered the report, and I'm satisfied it carried out financial, employment, and affordability checks. The document ends by saying "From the information provided, we would deem your subject a suitable tenant." This was a conclusion reached by a professional referencing agency and I think Mr and Mrs A were entitled to rely on that expertise. I am therefore persuaded Mr and Mrs A met the terms of the policy by reasonably obtaining a satisfactory reference for the tenant.

In respect of the IVA recorded on the report, the referencing service outlined at the time of the report, the IVA was more than one year old, and so their internal processes said they could continue as normal. I think it was reasonable for Mr and Mrs A to rely on that professional judgment in the circumstances.

While ARAG has outlined why they would expect a landlord to check their tenant does not have any adverse credit and are able to afford the rent, I'm not persuaded this is what the policy terms required Mr and Mrs A to do. ARAG's submission is Mr and Mrs A should have questioned the referencing process and carried out checks into the IVA and the repayment terms. I find that to be unreasonable in the circumstances and not what the policy terms require of them.

What was the impact

I consider there are two main areas of impact here. Mr and Mrs A were initially told their claim had been accepted, and they expected ARAG to meet the loss of rent claim under the policy. But ARAG later withdrew that confirmation and declined the claim instead, which I think would have caused understandable upset and uncertainty. They've also had to spend further time responding to ARAG's questions, chasing updates, and providing additional documents.

Given my findings above, I think this has caused further distress and inconvenience with a ARAG's continued stance in declining to cover the claim. As such, I'm satisfied it would be fair for me to award compensation to reflect the impact ARAG's actions would have had on Mr and Mrs A. I can see ARAG previously made an offer of £200 which the Investigator felt was fair. But having thought about the ongoing impact to Mr and Mrs A, I'm minded to increase the compensation amount from £200 to £650."

I concluded that I intended to uphold the complaint and to direct ARAG to reconsider the claim in line with the remaining terms of the policy and pay £650 compensation for distress and inconvenience caused by their handling of the claim. I invited both parties to respond to my provisional decision with any further information they wanted me to consider.

Mr and Mrs A responded and said they accepted my provisional findings. But ARAG did not, they say that:

- A landlord has a requirement to check the references and satisfy themselves that a sufficient review has taken place.
- Referencing agencies are not regulated which means there is a responsibility to the landlord to satisfy themselves that the reference is adequate to meet the basic requirements of their insurance.
- Mr and Mrs A failed to investigate the circumstances of the IVA and the potential

associated risk with the tenant.

- There is no legal basis for the affordability test, however the industry standard is 30x the monthly rent.
- There is no definition of what 'satisfactory' reference is in the policy wording, but there is a consistent approach across agencies about what is accepted as 'satisfactory'. The reference provided fails ARAG's policy requirements.

As both parties have now had an opportunity to reply, I will set out my final decision below.

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.

Having done so, while I've considered ARAG's additional submissions carefully, I have maintained the same outcome I did in my provisional findings.

The policy wording says ARAG will pay rent arrears provided the policyholder has obtained a satisfactory reference. The policy does not define what 'satisfactory' means, which is why I have applied its ordinary, everyday meaning. Mr and Mrs A obtained their reference from a professional referencing provider, and I think it was reasonable for Mr and Mrs A to rely on the assessment which said that they would deem the subject a suitable tenant. The reference also recorded the existence of the IVA but said that because it had been more than a year at the time the reference was carried out, their internal processes treated this as acceptable and didn't require further investigation. Nothing in the policy wording suggests that Mr and Mrs A were required to go beyond the conclusions of the referencing service or carry out additional checks themselves.

ARAG has set out why they think that landlords must independently satisfy themselves that the reference is adequate, because they say referencing agencies aren't regulated and may not meet a consistent standard. And they've also set out general industry practises around affordability and credit risk assessment which they say are relevant. I considered these submissions carefully, but I do not find them to be persuasive. The policy ultimately requires a reference to be obtained from a referencing service. It doesn't require that service to be regulated, nor does it say that the landlord must then undertake their own inquiries. The policy also doesn't incorporate any external affordability standards or require landlords to apply industry multipliers.

I appreciate that ARAG has outlined why they feel the tenant's income didn't meet what they consider to be accepted industry affordability (such as 30x the monthly rent). But there is no such requirement in the policy wording and there is no set minimum income-to-rent ratio. There is also not particular affordability formula. Ultimately, if ARAG felt that they wanted landlords to apply a specific, industry-based affordability model, they would need to outline this clearly in the policy wording. Because they didn't do this, I don't think it would be fair and reasonable for ARAG to rely on expectations that aren't set out in the contract of insurance.

I'm also not persuaded it would be fair or proportionate to expect a lay-landlord to conduct specialist insolvency inquiries or override a professional referencing provider's assessment. For these reasons, I remain satisfied that Mr and Mrs A did obtain a satisfactory reference within the meaning of the policy wording, and ARAG's decision to decline the claim was therefore unfair. Because the claim was declined, Mr and Mrs A have suffered distress and inconvenience which I am satisfied a compensation award of £650 fairly addresses.

My final decision

For the reasons I have given, my final decision is that I uphold this complaint. I direct ARAG Legal Expenses Insurance Company Limited to:

- Reconsider the claim in line with the remaining terms of the policy;
- Pay £650 compensation for distress and inconvenience caused by their handling of the claim.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A and Mrs A to accept or reject my decision before 30 December 2025.

Stephen Howard

Ombudsman