

The complaint

M complains U K Insurance Limited trading as NIG (UKI) has unfairly declined a claim it made on its commercial property insurance policy.

M is being represented in bringing this complaint, but for ease I've referred to all comments and actions as being those of M.

What happened

In early 2024, M discovered that a property it owned and had rented out to a tenant since March 2022, had been used to illegally cultivate drugs. It made a claim on the policy for the resultant damage caused to the property.

UKI assessed the claim but ultimately declined it. It said this was because M hadn't met a condition of the policy regarding vetting the tenants' bank account details.

M complained about UKI's decline of the claim. In October 2024 UKI issued a complaint final response letter (FRL), it didn't agree it had acted unfairly in declining the claim.

M remained unhappy and so referred the complaint to the Financial Ombudsman Service for an independent review. It said it obtained a payment from the tenant which matched the details previously provided. As such, it had no reason to suspect the account didn't belong to the proposed tenant.

Our Investigator recommended the complaint be upheld, she said that whilst M might not have strictly met the terms of the policy, she didn't think UKI had shown that there was an increased risk in the way the tenant had paid the rent.

UKI didn't accept that outcome and asked for an Ombudsman to consider matters. As such, the matter came to me to decide. In March 2026 I issued a provisional decision on this complaint. I said I intended to reach a different outcome to that of our Investigator and that I was currently satisfied that there had been a breach of the policy terms, and that I considered that breach to be material to the loss. Provisionally I said:

"Under the "Illegal Cultivation of Drugs" section of the policy, it says:

"it is a condition precedent to any liability being accepted by the Company to make payment under this Policy that the Insured shall have:

...c recorded details of the tenant's bank account details and verified the same by collecting at least one payment via such means".

For an insurer to be able to decline a claim for failing to comply with a condition, it needs to show that the condition hadn't been met, and that the non-compliance increased the risk of the loss that actually happened.

Has the condition been met?

UKI's position is that the condition hasn't been met because when the claim was registered, M told UKI that the first three months' rent were paid in cash. And so the tenant's bank account details hadn't been verified by "collecting at least one payment via such means". It said whilst M said its tenant then paid via bank transfers from September 2022, the payments shown on M's bank statements are under a name that does not match the tenant's name. And M's bank statements provided from September 2022 do not display the sender's full bank account details. So, it says the payment could have been sent from anyone and therefore does not verify the tenant's details.

M's argument is that there was no policy term that said the bank account details had to be verified before the tenancy stated, and that M obtained a payment from the tenant which matched the details previously provided. And so, it had no reason to suspect the account did not belong to the tenant.

Having considered matters I'm not persuaded that M met the terms of the policy. Quite simply, it didn't verify the tenant's bank account details by collecting at least one payment via such means.

I've seen some instant messages between M and the tenant from August 2022. The tenant shares an account number and sort code with M, which the tenant says is their account. But the information provided doesn't show the name on the account. So it doesn't verify that the account the money is coming from belongs to the tenant.

And as set out above, M's bank statements show rent was received, but the name shown as being the sender of the payment is not the name of the tenant listed on the tenancy agreement. The statement also doesn't show the senders full bank details, to verify that the money was sent from the account that the tenant said it would be. And M hasn't "collected" any payment based on the tenant's bank account details provided, it has simply accepted payments.

M has said this isn't a standard term in commercial insurance policies because other insurers only require a tenant to obtain account details by receiving a payment from the account, rather than this term which says a payment must be collected. I'm not going to set out any findings on the term used by UKI here. I say this because even if I were to consider M only needed to 'receive' a payment from the tenant's bank account, I'm not satisfied, for the reasons set out above, that it can reasonably show that it did.

As such, I don't think M has met the terms of UKI's policy to record details of the tenant's bank account and verify those details by collecting payment. But for UKI to rely on this to decline the claim, it needs to show that non-compliance has increased the risk of the loss.

Has the breach increased the risk of the loss?

UKI's position is that it has. It says the purpose of the condition with the cultivation of drugs section of the policy is to ensure that all tenants are appropriately vetted, and that the insured has confirmed the identity of the tenants and that a record of their bank details is held. And the risk this condition intends to prevent has occurred, because the tenant – whose bank account details were not verified – has allowed drugs to be cultivated in the property.

M's position is that given the tenant was approved for universal credit in November 2022, they would have had to undergo their own government verification checks. And as they were passed, and the universal credit approved, it shows that any breach of the policy condition didn't increase the risk of the loss.

Having considered matters I intend to decide UKI has reasonably shown that the non-compliance of the policy term has increased the risk of the loss. The rent being paid by universal credit for a certain period doesn't mean that I can overlook M's breach of the condition, nor is it evidence that the risk to UKI wasn't increased by M's breach. And I think UKI has reasonably shown that the breach of the condition has increased the risk of the loss because vetting tenants, including their bank accounts, is a way to prevent illegal activity being carried out in a rental property. And that is what ultimately happened here. As such, I intend to decide UKI has shown that M breached its policy condition, and that breach likely increased the risk of the loss. So UKI has fairly and reasonably declined to cover the claim."

UKI didn't provide a response to my provisional findings. M did; it didn't accept them. It asked for clarification on why I felt UKI had shown the loss was material, given our Investigator had decided it wasn't.

It said in summary that UKI hadn't provided any evidence that the breach did increase the risk of the loss. It said the intent of the policy condition was to exclude damage from landlords who allowed tenants into properties without any verification, or who let out properties to gain benefits from money laundering. M said it had shown itself to be a reputable, accredited and approved landlord trading for 20 years. It said there was no legal requirement to provide bank statements or to pay rent from an account in their own name. And it said the behaviour of the tenant, who was cooperating with inspections, was not consistent with criminal activity. It said the wording of the term itself was ambiguous, since it wasn't clear on when the payment needed to be 'collected' and so should be read in favour of M. M also considered another decision issued by this Service supported its position in relation to its claim that the policy condition being met wasn't material to the loss.

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.

My role as an Ombudsman is to review the file afresh, independent from that of the Investigator. It is not my role to explain why I've reached a different outcome to that of an investigator. Rather, my role is to set out my reasons for reaching the decision I have. Which I'm satisfied I have done.

I'm not, as part of this complaint, considering M's credentials as a landlord. I'm only considering whether UKI has fairly applied its policy terms in relation to this claim. As such, M's reputation, that it has set out it has as a landlord, has no bearing on the decision I've reached.

I've reviewed M's detailed arguments, but I'm still satisfied that the policy condition was breached. The illegal cultivation of cannabis cover isn't generally a standard feature of insurance policies; it offers an enhanced level of cover for a liability which other insurers might seek to decline altogether or accept claims for in limited circumstances.

Ultimately, it's for UKI to decide what risks it wants to insure and those it doesn't. In this policy it decided it will cover the "illegal cultivation of drugs" risk, so long as certain conditions are met. But it won't if they are not. I don't find its policy conditions to be unusual or unfairly onerous on its policyholder. I also don't find it to be ambiguous. It says one payment needs to be collected from the tenant's bank account. I don't accept there is any ambiguity in that. And if anything, I consider it is in favour of M that the term doesn't specify when that one payment needs to be collected. It didn't, for example, need to be the first

payment made. But in the circumstances of this complaint, M never collected (or as I've found even received) money from the tenant's bank account.

Whilst M might be right that there is no legal requirement for a tenant to pay rent from an account in their own name, the starting point here is the contract between UKI and M. Within that contract was a condition about verifying a tenant's bank account details. I'm satisfied M didn't meet that condition, for reasons set out in my provisional findings. M's response to those findings hasn't changed my mind on that.

M has said not verifying the bank details didn't increase the risk of the loss because it did carry out inspections, the tenant was cooperative and there was no suspicion reported of illegal activity. But none of that persuades me that not verifying bank details didn't increase the risk of illegal activity taking place at the property.

UKI's position is that not verifying tenant's bank account details means the tenant isn't properly vetted. I consider that a reasonable position to take. And I consider the fact that illegal cultivation of drugs did then take place is evidence in itself that the risk was increased by the tenant's account details not being vetted in line with the policy terms. And it seems to me that having an individual paying the rent for a time, whilst not being listed on the tenancy agreement, can be suspicious in itself, and does most likely increase the risk that illegal activity might take place. I say this because there must be some motivation behind paying rental instalments for someone, whilst not yourself wanting to be listed on the tenancy agreement. And I understand it's the case that those engaged with criminal activities often look to rent out properties with landlords who do not require vetting of bank accounts, so there can't be a financial trail leading back to any of those criminals.

I'm satisfied this is clearly a risk that UKI sought to protect itself against, with it considering that tenants who might pay rent in cash, or tenants who's bank account details have not been verified, are more likely to engage in, or allow illegal activity to take place.

I have reviewed the previous decision of this Service that M referred to. Each complaint is considered on its own merits, and so no decision sets a precedent for another. However, in any event, I'm not satisfied it supports M's position since in that complaint, a different insurer had sought to rely on an exclusion to decline the claim for cannabis farm damage, and the Ombudsman found the insurer had acted reasonably in doing so. The Ombudsman in that complaint did refer to what it considered was 'suspicious activity' from the tenant, but in this case, UKI's policy terms don't say it will meet a claim so long as the tenant hasn't been overtly 'suspicious', it says it will meet the claim if certain policy conditions are met. And for the reasons I've already set out, I'm satisfied one of those conditions wasn't met. I'm also satisfied that UKI can, as a result, fairly and reasonably decline the claim for damage.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 29 April 2026.

Michelle Henderson
Ombudsman