

The complaint

Mr C has complained that Zurich Insurance PLC declined a claim he made on a buildings insurance policy for loss of rent.

What happened

As the circumstances of this complaint aren't in dispute, I'll summarise what's happened.

- Mr C bought and moved into his flat in May 2022. I understand he intended to renovate it and remain living in it, but occasionally rent it out when away from it, such as when on holiday. And, if his income reduced, or his family needed financial support, he could rent out a room or the entire flat to generate an income.
- He discovered a leak in late 2022 and reported it to the freeholder of the block. The claim was passed to Zurich in February 2023, who accepted the water damage was covered by the policy and began taking steps to deal with it. Mr C has a number of concerns about that, but they will be addressed in a separate complaint.
- The leak prevented Mr C from completing renovations and caused damage, which meant he couldn't have rented the flat out. He said he lost out on rental income as a result and asked Zurich to pay for it. He also questioned whether Zurich would pay him if his financial situation changed and, because of the claim, he was unable to rent out the flat to generate an income.
- Zurich said Mr C hadn't made the flat available for rent prior to the claim. Without any evidence bookings had been made and cancelled, Zurich declined the loss of rent claim. It said there was no cover for losses related to a change of financial situation.
- Our investigator thought Zurich had acted fairly. She said Mr C hadn't shown he'd suffered a financial loss, in part because renting out the flat had merely been an option he was considering. Nor did she think Zurich was responsible for any losses which may flow from Mr C's financial situation changing.
- Mr C didn't think this was fair and asked for his complaint to be passed to 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.

- Having done so, I agree with the position reached by our investigator. I'll explain why.
- The scope of this complaint is Zurich's decision to decline the loss of rent claim, up to and including its complaint response about this point in September 2023. So that's what I'll focus on. Other matters related to the water damage claim will be considered separately, so I won't comment on or consider them here.

- The policy says it will pay “*the amount of rent lost by [Mr C] ... for the period necessary for reinstatement*” if his flat becomes uninhabitable.
- Zurich has declined to pay for this part of the claim because it says Mr C hasn’t shown he’s lost any rent. That’s because he hasn’t been able to show he had agreed to rent the flat – and then had to cancel that arrangement as a result of the leak.
- Mr C says he had no reason to make arrangements to rent out the flat prior to the claim, as the renovations weren’t complete at that time. So it’s unreasonable to expect him to provide the information Zurich asked for.
- But the policy is clear that it covers rent lost by Mr C. So in order to have a claim accepted, he must show he has lost rent – not merely the opportunity to rent. One way to do that is to show cancelled bookings. However, as Mr C hadn’t made any bookings, it’s clear why he can’t show any cancellations. Another way is to show that, but for the leak, he would likely have made bookings – but was unable to. I’d usually expect to see compelling evidence of plans and a firm intention to make bookings to be persuaded of this.
- I understand Mr C was planning to continue the renovation prior to the leak. A new kitchen was delivered in February 2023, and he was in touch with various contractors about the remaining work. So I think his point is that once renovation had been completed, he would have had the opportunity to explore rental options – and at that time he would have made any such bookings.
- However, it’s not clear when renovations were likely to have been completed – so it’s not clear to what extent the leak delayed Mr C’s opportunity to explore rental options for the flat. And, whenever that opportunity would have arisen, it’s not clear what rental options, if any, Mr C would likely have taken.
- Mr C’s intention was primarily to live in the flat. So he may not have rented it out at all between completing renovations and the complaint response in September 2023. He’s described how the purpose of the flat was to give him the flexibility to rent the entire property, or a room, in certain circumstances – such as if his or his family’s financial circumstances changed and more income was needed. But, at the time of the complaint response, it’s not clear those circumstances had arisen. And whilst it’s possible he may have chosen to rent it out for other reasons, such as additional income during a period of holiday, he also may not have done. Whilst I agree he lost the opportunity, I’m not persuaded that amounts to showing an actual loss of rent.
- I agree with Mr C’s point in principle. Were it not for the leak, it’s likely renovation would have been completed at some point. And, after that, he would have had the opportunity to explore rental options. So it’s possible he could have lost out on rent as a result of the leak. However, just because Mr C *could* have chosen to rent out the property after renovation, it doesn’t necessarily mean he *would* have done. And even if he would, it’s not clear to what extent he would likely have done that.
- Overall, this means I’m not satisfied he’s shown he lost rent as required by the policy. That’s why I’m satisfied Zurich acted fairly when it declined this part of the claim.
- Part of Mr C’s complaint is that Zurich hasn’t agreed to make payments to him in the event his financial situation changes and he’s unable to rent the flat because the claim remains outstanding.

- This is a buildings insurance policy, so cover is generally for loss or damage to the building itself. It doesn't cover losses linked to a change of financial situation. It will cover loss of rent, as set out above. So if a change in circumstances led to a loss of rent, that could be evidenced, the policy may cover it. But that would be something to consider if such a change arose. It hadn't by the time this complaint was made, so I'm satisfied Zurich acted fairly on this point.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 15 February 2024.

James Neville
Ombudsman