

The complaint

Mrs B complains about the settlement she received from AXA Insurance UK Plc in respect of her landlord's insurance claim for water damage to her tenanted property.

What happened

In July 2019 there was an escape of water from the washing machine at Mrs B's tenanted property. The kitchen, lounge and hallway were damaged so Mrs B raised a claim with AXA. Mrs B paid a total of £4,126.26 for the repairs, however, AXA only settled the claim for £2,262.34. It said she was underinsured as she had declared a rebuild value of £85,000 when she took the policy out in 2017 (now increased by index linking to £88,247). So, AXA said it'd applied the policy's average clause (paying her 56% of her claim) to the settlement.

Mrs B complained to AXA. She said she'd declared a rebuild cost of £250,000 when applying for the policy.

AXA looked into her complaint but didn't think it'd done anything wrong. AXA said Mrs B's policy declared a rebuild value of £88,247 but its loss adjuster had assessed it to be £155,000. AXA noted that Mrs B had applied for the policy online in November 2017 and had input the rebuild value herself when prompted during the application process. AXA said detailed information about calculating the rebuild cost was available during the application process.

AXA also noted that Mrs B had followed up her online application in November 2017 with a phone call during which its sales advisor had gone through the information inputted and Mrs B had confirmed the (2017) rebuild cost to be £85,000, not £250,000.

Unhappy with the outcome of her complaint to AXA, Mrs B complained to this service. Our investigator looked into Mrs B's complaint but didn't think AXA had treated her unfairly or unreasonably in the circumstances. Mrs B disagreed with our investigator's view and asked for her complaint to be referred for an ombudsman's decision.

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.

When Mrs B took out her policy online in November 2017 she was asked during the application process what the rebuild value of her property was. From the copy of that application that AXA has provided us with I can see that she was asked: *'what would it cost to rebuild this property?'* Next to this question there is a question mark. Clicking on the question mark provides further information about the question. It explains the rebuild cost is *'the sum insured shown on the schedule'*. It asks consumers to tell AXA:

'how much it would cost to rebuild the property if the worst was to happen to it – this amount should be greater than £50,000. Remember this is not the same as the market value of the

property. The rebuild value that you enter should include things like fixtures and fittings, internal decoration, fences and gates. It should also include any roads, pavements, or underground pipes and cables that either belong to you or that you're responsible for, as well as an allowance for professional fees and debris and removal costs resulting from the loss. It is important that you provide us with an accurate rebuild value for your property. If you don't, you may not be fully protected in the event of a claim. If you need help you can use the Association of the British Insurers' rebuilding cost calculator as a guide to contact a qualified surveyor or valuer.'

After completing her online application, AXA sent Mrs B a quote. I can see that the quote stated that the buildings reinstatement declared value of the property was £85,000. Next to this it defines the buildings reinstatement declared value as: *'the cost of rebuilding the property as new at the start of the period of insurance, including additional costs to comply with public authority requirements, professional fees and debris removal costs.'*

The day after completing the online quote, Mrs B called AXA to discuss the policy. During the call the sales advisor went through the quote and confirmed the rebuild cost of £85,000 with Mrs B. I've listened to the call and can hear that Mrs B agreed with what the sales advisor was asking her.

So, I'm, satisfied from the information I've seen that Mrs B was asked to provide a rebuild cost for the property, was given accessible information about how to calculate what that might be and, having inserted a figure, then received written confirmation declaring the figure she'd chosen. And, having listened to the call the following day between Mrs B and AXA I'm satisfied AXA asked her to confirm the rebuild cost was £85,000 which she did. I know that Mrs B said she declared a rebuild cost of £250,000 but unfortunately for her I've not seen any evidence that she did.

When an insurer validates a claim, it will typically check that the cover it's provided (at the price it agreed) covers the risk it has been asked to insure and which it is being asked to indemnify. That includes checking that the sum insured for reinstatement of the buildings is adequate. I can see here that the loss adjuster assessed the value at risk rebuild cost to be £155,000. That meant that Mrs B was underinsured and only 56% of the risk was covered.

In circumstances such as these, insurers will often apply the policy's average clause (should it contain one) to the claims settlement. Such clauses allow insurers to proportionately reduce a claim settlement in line with the percentage by which the property was underinsured. I've checked Mrs B's policy and can see that it contains such a clause. Given AXA had provided Mrs B with sufficiently clear information to explain the rebuild cost and that she had underinsured the property, I don't think it was unreasonable for AXA to have relied on this clause when settling her claim.

Whilst I appreciate Mrs B's strength of feeling on the matter, I can't fairly uphold her complaint. I know she's said that we can't be certain that the Association of British Insurers' (ABI) value is correct but it's not the role of our service to determine if it is or isn't. The figure is generated by the ABI and, in the absence of any specific evidence (such as a report from a surveyor) to dispute the figure it's reached, it wouldn't be reasonable to disregard it.

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 Mrs B to accept or reject my decision before 11 June 2021.

Claire Woollerson
Ombudsman