

The complaint

Mrs W complains on behalf of F, a partnership, in respect of its holiday home insurance, that Society of Lloyd's has only paid out part of F's claim for water damage, on the basis that it considers the property to be substantially underinsured.

What happened

In 2015 Mrs W took out on behalf of F a policy to cover F's part residential and part commercial property. The policy renewed in subsequent years until 2019. The sum the property was insured for at that time was £307,000. In June 2019 the property suffered an escape of water and a claim was made to Lloyd's.

Lloyd's appointed loss adjusters who assessed that the building was substantially underinsured. It assessed that the property came within the range of £352,000 - £698,000, using the online ABI calculator. Having regard to the property's age (some of it dated back to the 17th century) Lloyd's assessed the property's value at £600,000. Given the sum insured of £307,000, Lloyd's said it would only pay a settlement of 51% of the claim. With regard to the contents it accepted that these weren't underinsured. However as part of the claim some of the contents had to be removed into storage so they weren't damaged during the drying process. Lloyds said this came under the buildings claim, so the cost of it was subject to the reduction in the claim.

Mrs W said that when she applied for the policy online in 2015, they weren't given any information about how to calculate the rebuild cost, so they assessed the value and added it to the costs of renovating the property, including the converting of a barn into living accommodation. She said they had difficulty getting an online connection, so completed the purchase of the policy over the phone. She received the policy documents and letters in the post. In respect of the 2018 renewal she says they received a version of the renewal letter marked "v1" which didn't contain information about how to calculate the rebuild cost. When Lloyd's responded to her complaint it sent a version of the document marked "v2" which did contain such information. She consulted a local builder with experience of the value of properties in the area who said that the property wasn't underinsured.

Lloyd's said the two versions of the renewal letter both contained the same information concerning rebuild costs, it also said the application to buy the policy was completed online and that there were clear instructions about how to calculate the rebuild costs, with a link to the ABI guidance. It didn't accept that the calculation provided by the builder could be relied upon, as he wasn't a surveyor. It agreed to pay for a surveyor's valuation of the property for the next renewal.

On referral to this service our investigator said that she believed Mrs W would have seen the information about calculating the rebuild costs, and that the application had been completed online before she discussed it with the broker. With regard to the contents our investigator said that it was reasonable to include the drying and removal costs in the buildings claim, as the action was taken to prevent any damage to the contents due to the building reinstatement.

In response Mrs W asserted that the 2018 renewal letter didn't contain any information about calculating the rebuild value. She asked for evidence about what the online application said in 2015, but the broker wasn't able to provide this. She said that it couldn't be shown that the information was given online and repeated she was unable to complete the application online and had to do this over the telephone. Having consulted the ABI calculator she said that at most the property should be assessed as having a rebuild value of £352,000, meaning at least 87% of the claim should be paid. She further said, with regard to the contents that had they known the drying and removal was to be included in the rebuild cost, the furniture would have been left on site and F would have been entitled to the full replacement costs under the contents policy.

The matter has been passed to me for further consideration.

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.

I should say at the outset that although I have regard to the law in making my decision, I do so on the basis of what is fair and reasonable. I don't provide an opinion to enable F to take legal action. I also have to assess all the evidence on the basis of what I think in my opinion is most likely to have happened.

Going back to when the policy was taken out, Mrs W has told us that the application was made away from the property as they had such difficulty getting an online signal. From what I understand the application was made online and then the applicant had the option of calling the broker. But I believe the application was actually completed before any call was made to the broker. This means I have to decide whether it was more likely than not that information was given online as to how to calculate the rebuild value. Certainly we know that looking at the present day version of the website the full information is given. I take into account that the 2015 version isn't available, but it's clear that such information was sent out with renewal letters at least from 2018 onwards. On balance I think it fair to say that in order to make the application in 2015 the applicant had to calculate the rebuild value and was referred to the online calculator and/or to get a surveyor's valuation.

With regard to the information sent in 2018, I wouldn't necessarily expect the policyholder to be given detailed advice about how to calculate the rebuild value on renewal. However Lloyd's says the information was given in detail. The copy letter they sent to Mrs W after her complaint is marked at the footer "v2". I'm satisfied that Mrs W received a document marked "v1". Lloyds says there is no essential difference between the documents. The page which contains the rebuild costs information doesn't have a version number on it and is a stand-alone page. So I don't know whether or not version 1 had the information attached. But I think it's more likely than not that it did. As I've said the renewal letter isn't crucial to whether F received sufficient information to calculate the rebuild costs, as long as the document made clear that any change in value or other information has to be advised. And I think that it did. As a commercial policyholder I would have expected F to regularly update the value of its assets.

So I think F was given sufficient advice as to how to calculate the rebuild value of the property and that it was undervalued for insurance.

As to the value Lloyd's assessed for the property, Mrs W has shown us an opinion from a local builder after the claim saying the property was adequately insured. Unfortunately that's not a surveyor's opinion, and although Mrs W has mentioned getting a surveyor's opinion she hasn't done so, on the basis that she thinks the value will probably be in the region as set out by Lloyd's loss adjusters. I can understand that, but essentially the only available

professional opinion, based on the ABI calculator, is that of Lloyd's. And although it is toward the upper end of the range put forward, it did take account of the fact that parts of the property are very old and the calculator can't take account of properties of that age. So I think the estimate of the rebuild value is fair. And though I understand this is upsetting I can't say that Lloyd's should make any further payment in respect of the buildings.

As regards the removal of the contents, I think this does come under the buildings policy. They were removed in order to avoid them being damaged by remaining in damp conditions and/or by the drying process. All policyholders have a duty to mitigate their loss and had the contents been left in the property to get damaged then I think the policy wouldn't have paid out. I think the drying process, part of which was safeguarding the contents by removing them, was part of the building reinstatement claim. The removed contents weren't damaged by the escape of water and any preventative steps came under the buildings policy. For example if F had just had a buildings policy, and no contents policy, the removal of those contents to enable drying to take place would still be covered under buildings.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask F to accept or reject my decision before 3 June 2021.

Ray Lawley
Ombudsman