

The complaint

Ms M and Mr P have complained about how Royal & Sun Alliance Insurance Limited trading as RSA (RSA) offered to settle a claim under their commercial insurance policy.

Ms M and Mr P were represented during their claim by Mr M, who I will also refer to in my decision.

What happened

Ms M and Mr P, who are neighbours, made an insurance claim under a joint policy when they found damage to their homes. Initially, RSA declined the claim because it said the damage was due to rot, which wasn't covered by the policy. However, it later accepted the claim because it said the damage was the result of an escape of water.

RSA offered to reinstate the property or to pay a cash settlement. Mr M told RSA that Ms M and Mr P wanted a cash settlement and provided a quote for the work. RSA said it would pay the cash settlement but at a discounted rate. It said the cash settlement would be paid with no questions asked. VAT could be reclaimed, but these costs would need to be substantiated.

When Mr M complained, RSA confirmed again that it would pay the cash settlement at a discounted rate. However, it agreed to pay an additional £5,000 for alternative accommodation costs.

So, Mr M complained to this service. Our investigator upheld the complaint and said RSA should pay the cash settlement at the amount in Ms M and Mr P's quote and pay interest on that amount. She also said RSA should pay Ms M and Mr P £100 each in compensation and consider any VAT charges subject to invoices being provided.

As RSA didn't agree, the complaint was referred to me.

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 uphold this complaint. I will explain why.

RSA offered two options to settle the claim. The first option was for RSA to reinstate the property by making an interim payment and paying other invoices during the works. In principle, I think that was reasonable and meant that the damage would be dealt with, even if the costs and level of damage were greater than currently identified.

RSA also offered to cash settle the claim, which was Mr P and Ms M's preferred option. However, RSA was only willing to do this by applying a discount to the amount put forward by Mr M to cash settle. RSA said it would normally apply a 10-20% discount and that the amount it offered was a realistic amount for the work as, due to the amounts involved, Mr P

and Ms M might be able to get discounts from contractors. I've thought about this, but I'm not persuaded that this was a reasonable basis for the cash settlement offer. The offer needed to be based on Mr P and Ms M's claim and circumstances. Applying a discount because that is what RSA would normally do didn't mean it was reasonable for this claim specifically.

I haven't seen anything to show that the discount RSA applied was based on a realistic and evidenced assessment of what Mr P and Ms M would need to pay for the work. I also wouldn't expect a consumer to enter into various negotiations with contractors to obtain the discounts RSA thought were achievable. So, based on what I've seen, I'm not persuaded there was evidence to show Mr P and Ms M's quote was an unrealistic amount for the works to be completed. As a result, RSA needs to settle the claim using Mr P and Ms M's quote and pay interest on that amount because they lost use of that money. I'm aware that RSA has said it shouldn't have to pay interest. However, I think it should because I don't think the basis of the cash settlement offered was fair and directly led to the dispute I've been considering. Interest should be paid from the date on which the quote was first provided to RSA to the date on which payment is made.

Mr M has also said the VAT should be paid as part of the cash settlement as it was clear what the money would be used for, which was to carry out the works. RSA said it would pay the VAT element following receipt of invoices for the work. We would normally say it was reasonable for an insurer to reimburse the VAT at a later date when invoices are provided. I think it's reasonable for RSA to take that approach in this case and I'm not persuaded there is reason for it to make a VAT payment at the same time as the cash settlement.

I also think Mr P and Ms M will have been caused distress and inconvenience because of the issues around agreeing a cash settlement. So, I think RSA should pay each of them £100 each to recognise this.

I'm aware that Mr P has said they would also like to be paid a disturbance allowance because of the conditions they have been living in. However, I'm not requiring RSA to do this. A disturbance allowance isn't a form of compensation for inconvenience caused by someone remaining in their property. It is a payment for actual costs incurred. If Mr P and Ms M think they are entitled to disturbance allowance, they would need to raise this with RSA.

Putting things right

RSA should settle the claim for the works using Mr P and Ms M's quote and pay interest on that amount. It should also pay Mr P and Ms M £100 each and consider VAT charges subject to invoices being presented.

My final decision

For the reasons I have given, it is my final decision that this complaint is upheld. I require Royal & Sun Alliance Insurance Limited trading as RSA to:

- Settle the claim for the works using Mr P and Ms M's quote.
- Pay 8% simple interest on that amount from the date on which the quote was first provided to RSA to the date of payment.
- Pay Mr P £100 compensation.
- Pay Ms M £100 compensation.
- Consider VAT charges incurred as part of the claim, subject to invoices being presented.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M and Mr P to accept or reject my decision before 18 April 2022.

Louise O'Sullivan
Ombudsman