

The complaint

Mrs M had touring caravan insurance underwritten by Aviva Insurance Limited (Aviva). She complains that Aviva didn't offer her enough to replace her caravan when it was badly damaged. The complaint against Aviva includes other companies acting on its behalf.

What happened

Mrs M had an accident while towing her caravan. Aviva decided that it wasn't possible to economically repair the caravan and declared it a total loss. Mrs M had "new for old" cover on her insurance policy. Aviva offered her £26,000 which was the sum insured under her policy. Mrs M wasn't happy with this as she said it wasn't enough to replace the caravan with a new one of the same make and model.

Mrs M complained to Aviva. Aviva said Mrs M's policy stated that the sum insured was the maximum amount that would be paid out.

Mrs M wasn't happy with this response and complained to this service. Our investigator upheld her complaint. He said as Mrs M had a new for old policy it would be fair and reasonable for her to expect to be covered for an amount sufficient for her to be able to replace her caravan on that basis. Based on information provided by Mrs M, and his own research, the investigator suggested that Aviva should pay her £33,374 to settle the claim. He also suggested Aviva should pay Mrs M £200 for her distress and inconvenience.

Aviva didn't agree with the investigator's suggestion, and so Mrs M's complaint has been passed to me. Mrs M wants her claim settled so that she can buy a new caravan of the same make and model as the one that she lost.

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'm upholding Mrs M's complaint. I'll explain why.

On 1 April 2022 I issued a provisional decision. My provisional decision said:

"When Mrs M took out her insurance via a broker she was asked what the purchase price was. She had just bought the caravan for £25,999 and she couldn't quite remember the exact purchase price so she said £26,000. This became the "sum insured" under her policy. The accident where the caravan was written off was just a few months later. At the point of sale, Mrs M wasn't advised that she needed to keep checking that the sum insured was enough to cover a new caravan or what would happen if the sum insured wasn't enough to buy a new replacement.

I've looked at the documents sent to Mrs M in connection with her insurance policy.

- *The "statement of fact/statement of insurance" and "certificate of insurance" do say "caravan sum insured £26,000".*
- *The certificate of insurance says "new for old/market value: new for old".*
- *The insurance schedule says "policy type new for old", "caravan total sum insured £26,000", "these are the maximum amounts we will pay and should be read in conjunction with your policy wording" and "issued subject to the terms of the policy wording".*
- *The "insurance booklet" says "conditions...you must...make sure your sums insured are high enough to cover the caravan and contents to be insured".*

However the "insurance booklet" also says:

- *"index linking - if your insurance schedule shows that you have selected claims settlement on a new for old basis the sums insured under section 1 will be index linked in line with the RPI or similar index or a minimum of 3% whichever is higher";*
- *"sum insured condition - for any caravan up to 15 years old...purchased from new the sum insured must be adequate to cover the cost of replacing the caravan as new as at the commencement date of the insurance or at a subsequent renewal date...If at the time of a loss the sum insured is too low, we will not settle claims on a new for old basis and will reduce any payment to a market value basis. If your sum insured is insufficient to replace your caravan on a market value basis then any claim will be reduced by the proportion of underinsurance";*
- *"definitions...market value – the current market replacement value of your caravan...taking into account age, type and condition at the time of the loss...new for old - the cost of replacing the caravan...with a comparable brand new equivalent replacement in the event of total loss up to the sum insured shown in your insurance schedule";*
- *"section 1 caravan...basis of settlement...for any caravan...purchased new which is lost stolen or destroyed and less than 15 years old...where the sum insured is sufficient we will pay for a replacement as new...If the caravan...was not purchased new, the sum insured is not sufficient to cover the full replacement value as new or the caravan...is over 15 years old the caravan...will be replaced at the current market value. If your sum insured is insufficient to replace your caravan...on a market value basis then any claim will be reduced by the proportion of underinsurance".*

I think the policy documents are difficult to understand and somewhat contradictory. Mrs M did as she was asked and insured the caravan for a sum adequate to cover replacement as new at the time of commencement of the policy, in fact what she had just paid for it. The caravan was a total loss just a few months later.

I think it's fair and reasonable for a consumer taking out a new for old policy to expect that it would cover the cost of an equivalent new item. Aviva only asked Mrs M to be sure the sum insured was sufficient to cover the cost of a new caravan at the commencement date of the insurance or at renewal. I don't think it would be fair and reasonable to expect Mrs M to either insure the caravan for more than she'd just paid for it, or to update the sum insured to reflect the rise in caravan prices within a few months.

I can see that ordinarily it might be expected that the price of a new caravan would increase only very slightly over the course of a few months, and the index-linking term in the policy would most likely cover this. However Mrs M has provided persuasive evidence that caravan prices rose much more than might usually be expected after she bought her caravan, probably due to restrictions on other types of holidays due to Covid-19. So I'm inclined to think it would be fair and reasonable for Aviva to pay Mrs M more than the £26,000 it has offered.

New for old insurance policies are a relatively recent type of insurance for caravans, although they are commonly found in other policies like contents insurance. They usually involve the insurer simply giving the consumer a replacement new item rather than a monetary settlement. This is to the insurer's advantage as insurers can often get large discounts from retailers and so it works out cheaper for them to provide a replacement rather than pay the consumer to do so. It would have been open to Aviva to simply replace Mrs M's caravan with a new one of the same or equivalent make and model, and Aviva may wish to consider doing so now in settlement of Mrs M's claim.

Ordinarily when this service is looking to value a vehicle we would use the relevant trade guides to come up with an average price as at the date of loss. However they do not cover caravans. The investigator used a well-known caravan sales website to look at the prices of equivalent caravans and came up with an average of £33,374. Full details have already been provided to Aviva. I accept that these prices don't necessarily relate to the date the caravan was damaged. However Mrs M wasn't able to buy a new caravan immediately the old one was damaged, because Aviva didn't offer her enough as a settlement. So I think it's fair and reasonable to use these prices.

Mrs M has experienced considerable delay and frustration in trying to get her claim settled for an amount sufficient to replace her caravan. I intend to require Aviva to pay her £200 in recognition of this.

My provisional decision

For the reasons given above, I intend to uphold Mrs M's complaint.

I intend to require Aviva Insurance Limited to pay Mrs M £33,374 in settlement of her claim; this being a fair and reasonable amount to enable her to replace her caravan with an equivalent new make and model. I also intend to require Aviva Insurance Limited to pay Mrs M £200 in recognition of the distress and inconvenience caused by the delays in settling her claim."

Responses to my provisional decision

Both Mrs M and Aviva said they had nothing further to add to my provisional decision.

My final decision

I require Aviva Insurance Limited to pay Mrs M £33,374 in settlement of her claim. I also require Aviva Insurance Limited to pay Mrs M £200 in recognition of her distress and inconvenience.

Aviva Insurance Limited must pay the compensation within 28 days of the date on which we tell it Mrs M accepts my final decision. If it pays later than this it must also pay interest on the compensation from the date of my final decision to the date of payment at 8% a year simple.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or

reject my decision before 19 May 2022.

Sarah Baalham
Ombudsman