

The complaint

Mr B is unhappy with the way RiskAlliance Limited Plc ("RA") arranged his buildings insurance policy.

What happened

- Mr B has arranged buildings insurance for his property using an intermediary, RA, for a number of years.
- In September 2019, Mr B renewed the policy. RA placed the policy with a new insurer, X, and with a sum insured of £208,525.
- In July 2020 Mr B got in touch with X after he noticed cracking at the property. In summary, it accepted the claim was covered by the policy. But it thought Mr B wasn't insured for as much as he should be. As a result, it said it would reduce the amount it would pay for the repairs and Mr B would have to make up the difference.
- Mr B didn't think this was fair and complained to X, which I've considered separately. He also complained to RA. He thought the way it had sold the policy had led to him receiving a reduced claim settlement. He said his policy had a higher sum insured the year before, and it was unfair for RA to reduce it.
- RA said the new, lower sum insured was clearly stated on the initial quotation it sent to Mr B in 2019 – as well as a second quotation and the policy documents after the renewal had been confirmed. And it had told him to check all the documents and let it know if anything was wrong – but he didn't do so.
- Our investigator thought RA had acted fairly. Mr B disagreed and an agreement wasn't reached, so the complaint has been passed to me.

My provisional decision

I recently issued a provisional decision in which I said:

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've considered the complaint against the insurer, X, separately, so I won't go into detail about that here. But, in summary, I found it was fair for X to reduce the amount it pays for the repairs to 78% of their value. That leaves Mr B with a shortfall of 22% to pay himself.

The reason for the reduction is because Mr B's policy with X had a sum insured of £208,525. And a reasonable sum insured would have been £293,000.

In 2018, RA had placed Mr B's policy with a different insurer. It had a sum insured of £500,000. Mr B thinks RA treated him unfairly by reducing his sum insured in 2019.

RA says it made the change of sum insured clear to Mr B. It was up to him to review it and let RA know if it wasn't enough, but he didn't do so.

RA has explained the reason for the change in sum insured. It says it had arranged Mr B's policy to have a 'global' sum insured for a number of years. I understand this to be a fixed amount thought to be comfortably enough to cover the rebuild cost of the property. In this case the global sum insured was set to £500,000. In 2019 it placed the policy with a new insurer and with a 'conventional' sum insured. I understand this to be one which requires the policyholder to estimate and choose an amount sufficient to cover the rebuild cost of the property. RA estimated what the conventional sum insured should be. It used the last known conventional sum insured from several years earlier and index linking to arrive at £208,525.

Ordinarily when a broker arranges a policy, its duty is broadly to find out what the insurer would like to know about the risk it is taking on and gather that information from the policyholder. That includes asking clear and relevant questions and providing additional guidance and support where necessary.

At a renewal, where the information may already have been gathered before, it's duty may reasonably be fulfilled by reminding the policyholder of the information required, the information previously given, and asking them to check it remains correct. And if any new information is required, asking clear and relevant questions and providing additional guidance and support where necessary.

When the type of sum insured changed, RA could have fulfilled the duty I've described above by keeping the sum insured at £500,000 – as it had been the year before – and asking Mr B to check that remained correct. Or it could have let him know the type of sum insured had changed and asked him to estimate what it should be, providing guidance on how to do that. Instead it provided the estimate for him.

I don't think that's unreasonable in principle. However, it meant RA was effectively answering the question for Mr B. As a result, I think it would have been reasonable to highlight to Mr B that's what it had done. Especially as the way it had answered the question meant reducing the sum insured to around 40% of its previous figure – a substantial change that could have a significant impact on Mr B in the event of a claim.

I agree with RA that the sum insured is clearly shown on the documents it shared with Mr B. And it did ask Mr B to check the documents to ensure the information was accurate. But I'm not satisfied this amounts to highlighting such a significant change to him given the potential impact of being underinsured. So, whilst Mr B had a responsibility to check the information and change anything he thought was wrong, RA also had a responsibility to support and guide him to do that – especially where it had made significant changes.

It's clear Mr B checked the documents because he asked RA to make several changes to the information it held about his policy. He says he didn't question the sum insured as he assumed it would have stayed the same as the year before and he thought this was more than enough.

The documents consist of a number of statements, rather than questions. The relevant one in this dispute says 'sum insured' followed by a number. It isn't explained what that phrase means. So I'm not satisfied RA gave Mr B reasonable guidance and support to decide whether the estimate was a reasonable one.

RA says that if Mr B had questioned the sum insured, it would have given further explanation about what it means. And it would have advised him to obtain a valuation from a local agent or use credible online valuations tools. I think both of these options are reasonable advice for a broker to give – it's not the expert on rebuild costs but the options it suggested give access to expertise. But these options are only suggested if the sum insured is questioned. They're not given to help a policyholder decide whether they need to question it. And RA itself, when estimating the sum insured for Mr B, didn't take either of these options.

Overall, I'm not satisfied RA has treated Mr B fairly. It made a significant change to his sum insured and didn't highlight it to him. When making the change it didn't use the methods it would usually advise its policyholders to use. And it didn't provide guidance to him about how to ensure his sum insured was reasonable. Whilst it asked Mr B to check the sum insured and presented the figure clearly, I don't think this outweighs the other points.

To decide how RA should put things right, I need to consider what would likely have happened had RA treated Mr B fairly – and put Mr B in that position. There are a number of possibilities here. Broadly RA could have:

- kept the sum insured the same as the previous year
- estimated the new sum insured and highlighted it to Mr B
- asked Mr B to provide a new sum insured

In each case, RA should have told Mr B that the sum insured should be based on the cost of rebuilding the property and provided guidance about how to do that. Using the online tool is the simplest method and the one that, in my experience, most property owners use. It's also what X used to provide an estimate of £293,000.

Had RA taken any of those three approaches and provided the guidance, on balance I'm satisfied it's likely Mr B would have reached a similar estimate to X. That means he wouldn't have had to make up a 22% shortfall in the cost of repair.

To put things right, I think RA should pay Mr B compensation to the value of the 22% shortfall. I understand the claim is ongoing and the cost of repairs is yet to be finalised. Because of that I think the appropriate remedy at this stage is to set out the proportion of the repair cost RA should pay when the time comes, rather than award a specific sum of money.

Once Mr B has received his settlement from X, he should share evidence of that with RA so it knows how much to pay. RA won't be responsible for any making up any shortfall brought about by the payment of the excess.

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.

RA responded to confirm it accepted what I had said.

Mr B let us know he accepted the findings of my provisional decision.

As neither party disagreed with or commented on my findings, I see no reason to change my mind or comment further in detail. I remain satisfied it would be fair to uphold this complaint for the reasons set out in my provisional decision.

My final decision

I uphold this complaint and require RiskAlliance Limited Plc to pay compensation to the value of the 22% shortfall in Mr B's repair costs.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 18 July 2022.

James Neville
Ombudsman