

The complaint

Mr and Mrs M complain that their home insurer, Fairmead Insurance Limited, unfairly declined their claim for a piece of their jewellery that was lost.

What happened

I sent the parties a provisional decision in May 2022, in which I set out the following background information to the complaint and my provisional findings, as follows.

Mrs M said she lost the diamond from her ring at home while stripping a room and removing a carpet. She made a claim to Fairmead and sent the receipt from the jeweller at £995. She said this was below the limit for specified items on the policy of £1,500.

Fairmead appointed loss adjusters to handle the claim and requested a valuation to replace the diamond. This came to £2,800 and the loss adjusters declined the claim. Mrs M said she only expected to receive the cost of the ring and challenged the decline of the claim.

Fairmead said the policy will only provide cover for high-risk items which are valued at £1,500 or more if the item is specified on the policy and the ring wasn't specified. It said the policy booklet sets out cover for contents within the home:

'What is not covered

For any claim, regardless of cause, no cover is provided for: Any item... [that] can be covered separately in this booklet:

High Risk Items – Worth £1,500 or more.'

The policy is clear that jewellery is considered to be a high-risk item and the limit for unspecified individual items is £1,500. Mr and Mrs M's policy states:

'If you have items worth more than the above limits or if you'd like to protect them away from the home, you'll need to specify them otherwise they're not covered.

Specified items within the Home

You have not specified any items to be covered within the Home.'

Mr and Mrs M complained to Fairmead about the claim decision. In the final response on behalf of Fairmead the insurer said the item should have been specified but wasn't and so isn't covered under the policy and it was fair for it to decline the claim in full.

Mrs M wasn't happy with this and referred their complaint to our service. Our investigator didn't recommend it be upheld. He said it was reasonable for Fairmead to decline the claim as the ring hadn't been specified as required by the policy for high-risk items.

Mrs M disagreed with the investigator. Mrs M said she had taken legal advice and while she understood she couldn't claim for the full price of replacing the diamond, as she hadn't realised the diamond had increased so much in value, she should be able to reclaim the original cost of her ring. Mr and Mrs M requested an ombudsman review their complaint.

My provisional findings

Contents insurance covers the cost of repairing or replacing items in the home if they are damaged, stolen or lost due to an unforeseen event. And so, it is understandable that Mrs M expected to be covered for the loss of the stone from her ring. However, payment of a claim is determined by the terms of the policy which generally include limits, and it's clear there's a limit within Mr and Mrs M's policy for lost items that are considered to be high-risk.

Fairmead said that although Mrs M's ring was bought for £995 the replacement of the stone and repair was quoted to be £2,800 and should have been specified in their policy. The policy states that 'For any claim, cover isn't provided for: Any item not listed within Your Policy Document.' Fairmead said that no error was made on their side. It said it had acted in line with the terms of the policy by declining the claim.

Mrs M said her policy isn't a new for old policy and so she only wants the cost of the lost diamond from when it was purchased. Mr and Mrs M's policy is an indemnity policy. That means the insurer is supposed to put the policyholder back in the position they were in just before the loss happened, not just meet the original cost of the lost item. The policy states that it provides 'New for old replacements'.

Mrs M has showed the original cost of the ring was £995. But this was 18 years before its loss. It's to be expected that precious stones and metal would increase in value over time and Mrs M is aware of this. However, in the absence of an up to date valuation she wasn't aware of quite how much it had increased in value.

Given the value now applied to the stone and fixing the ring, it's clear Mr and Mrs M were under-insured when it was lost. The cover to protect high-risk items is optional and the policy requires insured items to be specified. If the sum insured has changed since the item was purchased and is now under-insured, we look at how clear the insurer explained what was necessary in terms of valuation - and also if the consequences of not doing so were clear.

I've looked at the policy and renewal documents. Fairmead requests policyholders to 'Check the cover limits to ...make sure You've requested adequate levels of cover.' But I haven't found any advice to obtain valuations of high-risk items or to review the cost of replacement. I don't think 'check the cover' can be reasonably be expected to mean that Mr and Mrs M should have arranged a professional valuation in advance of their application or renewal of the policy. If this was expected by Fairmead it should have been explained to Mr and Mrs M.

The policy goes on to explain that if the sum insured isn't enough the policyholder is under-insured and a claim will be settled proportionately. It also states that certain types of cover have an individual specific limit, which is the maximum Fairmead would pay on a claim. Both the proportionate settlement and the settlement to a specified limit, such as £1,500 for high-risk items, are very different from Fairmead's total rejection of Mr and Mrs M's claim.

So, I don't think the policy was completely clear on the important points about obtaining up to date valuations and the full consequences of not doing so. Also, I don't think policyholders are generally experienced in calculating the values of their items - so it can be difficult for them to estimate whether they should be specified. In Mr and Mrs M's case I don't think they should have been expected to know that Mrs M's ring had more than doubled in value.

Incidentally, Fairmead make provision for the increased value of an item while it's insured. 'We will treat You fairly if the value of an item changes during the Period of Insurance. For example, if the price of gold were to suddenly double during the life of the policy, we would take this into account at point of claim'. I realise that Mrs M's ring would have increased in value largely before the policy started and during the policy, but the policy indicates a fair approach to increases, which the complete rejection of the claim goes against.

Having considered the policy and circumstances of the claim, I currently don't think it's fair for Fairmead to refuse any payment for Mrs M's ring. I think it would be fair for it to pay her claim to the level for high-risk items. I don't think it would be fair to require Fairmead to pay the full value for the ring as had a high-risk item of this value been specified on the policy the premium to Mr and Mrs M is likely to have been greater. Payment of the claim to the high-risk item limit for unspecified items is consistent with the approach our service has taken in other similar cases and I currently think it is fair in the circumstances of this case.

My provisional decision and the parties' responses

I provisionally decided to uphold the complaint and require Fairmead to pay Mr and Mrs M's claim for the damaged ring and lost precious stone to the policy limit for unspecified high-risk items of £1,500, less any applicable policy excess. I also thought Fairmead should pay Mr and Mrs M £100 for the inconvenience and upset caused to Mrs M by its unfair decision on her claim.

In response to the provisional decision, Mr and Mrs M said they had no further comment to make. Fairmead indicated that a response would be made, but there's been no response or a request for more time.

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've reconsidered this complaint and the relevant policy terms, and having done so I see no reason to change my provisional decision.

My final decision

For the reasons I have given it is my final decision that the complaint is upheld. I require Fairmead Insurance Limited to pay Mr and Mrs M's claim for the damaged ring and lost precious stone to the policy limit for unspecified high-risk items of £1,500, less any applicable policy excess. I also require Fairmead Insurance Limited to pay Mr and Mrs M £100 compensation for the inconvenience and upset caused to Mrs M by its unfair decision on her claim.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M and Mrs M to accept or reject my decision before 19 July 2022.

Andrew Fraser
Ombudsman