

The complaint

Mr and Mrs S are unhappy that AXA Insurance UK Plc offered a reduced settlement amount for a claim they made on their home insurance policy.

Mr S has primarily dealt with the claim and complaint, so I'll refer to him only.

Reference to AXA includes its agents and representatives.

What happened

The circumstances of this complaint aren't in dispute, so I'll summarise the main points:

- Mr S took out home insurance through a broker, who I'll refer to as B. The underwriter was AXA for a number of years. In 2019 it changed to a different insurer before returning to AXA in July 2020.
- In May 2021, Mr S got in touch with AXA after he discovered his electric gate wasn't working properly.
- AXA accepted the damage was covered by the policy and agreed to settle the claim. But it said Mr S had underinsured the outbuildings. It thought they should have been insured for £21,954 but were only insured for £7,500, or about 34%. AXA relied on a policy term to reduce the claim settlement in line with this percentage.
- Mr S didn't think this was fair. He said he hadn't been informed what the cover for outbuildings included. And if he had, he would have increased his cover.
- Our investigator thought the complaint should be upheld. She didn't think AXA had shown it had asked Mr S clear questions at the relevant times. Nor had it provided any underwriting information to show the impact on the premium of the alleged underinsurance. She said AXA should pay the claim in full, together with £100 compensation for the delays caused.
- An agreement couldn't be reached, so the complaint has been passed to me.

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.

AXA relied on a policy term to reduce the amount it offered to settle the claim. In summary this term says that if the amount Mr S is insured for is less than the rebuild cost, the claim will be settled at the percentage Mr S is insured for. Here that's around 34%.

I'm satisfied the term is in the policy and is clearly worded. However, I'm not persuaded it would be fair and reasonable for AXA to rely on it in this case. I'll explain why.

Whilst I recognise AXA is seeking to rely on the policy term only, it's doing so because it doesn't think Mr S gave the right information when the policy renewed in 2020.

According to the policy term, at the renewal, AXA wanted to know how much it would cost to completely rebuild all Mr S' 'outbuildings'. Within the policy, this word is defined so its full meaning is explained. It says it includes, amongst other things, detached garages, sheds, fences, driveways and patios. AXA is entitled to set the definition as it sees fit and to ask for the full rebuild cost in order to decide how much to charge for providing insurance cover.

When an insurer sells a policy directly to the consumer, it's responsible for gathering information from the consumer that it considers relevant – such as the rebuild cost for outbuildings.

When a broker sells a policy, it's responsible for gathering that information from the consumer and passing it to the insurer. How it gathers that information is a matter for the broker – not the insurer. This complaint is against AXA in its role as insurer – a separate complaint has been considered against B in its role as broker.

As far as AXA is concerned, it wanted to know the full rebuild cost for the 'outbuildings' and didn't receive a reasonable answer. *If* I were to agree Mr S' answer was unreasonable, I would go on to consider what impact that had on AXA. So, if Mr S had said the rebuild cost was around £22,000 as AXA thinks he should have done, what difference – if any – would that have made to AXA? For example, if it would have asked Mr S to pay a higher premium, it may be air to apply a proportionate settlement in line with the proportion of premium paid.

Our investigator asked this question but AXA hasn't answered it. Without evidence that it would have made any difference to AXA, I'm not satisfied it would be fair for AXA to reduce the claim settlement.

Even if Mr S had given a higher outbuildings sum insured, it seems AXA would have offered him the same policy, with the same terms, at the same premium – and paid this claim in full. In other words, Mr S has paid as much as he needed to for full cover, yet AXA isn't prepared to pay the claim in full. I don't think that's a fair and equitable position to take.

Because of this, I haven't gone on to consider whether Mr S' answer was reasonable or not – as it doesn't make a difference to the outcome.

To put things right, AXA should settle Mr S' claim without relying on the policy term to reduce the settlement value. The remaining policy terms and conditions apply.

This claim has now been outstanding for over a year. Whilst the initial loss adjuster inspection and investigation was a reasonable and normal part of the claim journey, the subsequent delay was unnecessary and avoidable had AXA acted fairly.

Mr S has been suffering from ill health during that time. It's not appropriate for me to go into detail about the illness here. But I'm satisfied it's meant an already difficult time for him has been unnecessarily exacerbated by a prolonged claim journey.

That's caused him distress and inconvenience, which I think AXA should pay compensation for. I consider £500 a reasonable and proportionate figure in the circumstances. That includes the £100 previously suggested by our investigator. If that's been paid, it can be deducted from the £500 total.

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.

Mr S accepted my provisional decision. AXA didn't. It pointed to the policy term which says AXA can reduce the claim settlement if Mr S is insured for less than the rebuild cost.

I explained in my provisional decision that I was satisfied the term was contained within the policy and clearly worded. That's not in doubt. I went on to explain why I wasn't persuaded it would be fair to rely on the term. My reasoning is set out above, so I won't repeat it.

AXA hasn't told me why it disagrees with my reasoning or provided any further evidence about what I've said – it's simply reiterated that it would like to rely on the policy term. That hasn't persuaded me to change my mind.

I still think it would treat Mr S unfairly to reduce his claim settlement when there's no evidence that selecting a higher sum insured would have had any impact on AXA – for the same reasons I set out above.

It follows that I'm satisfied the remedy I proposed is the fair one to settle this complaint.

My final decision

I uphold this complaint. I require AXA Insurance UK Plc to:

- Settle the claim without reliance on the underinsurance policy term and subject to the remaining terms and conditions of the policy.
- Pay a total of £500 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 11 October 2022.

James Neville
Ombudsman