

The complaint

Mrs H complains about the settlement AXA Insurance UK Plc offered her following a claim on her caravan insurance policy.

What happened

Mrs H's caravan was damaged in a storm and she made a claim on her policy. AXA offered her a settlement based on the amount Mrs H had insured the caravan for when she took out her policy. But Mrs H thought this was unfair as the caravan had increased significantly in value. AXA said the caravan was under-insured and it reduced the settlement proportionately.

Our Investigator recommended that the complaint should be upheld. She thought Mrs H had stated the caravan's correct market value when she took out her policy. She thought this had increased significantly. And she thought it was unfair for AXA to penalise Mrs H for this. She thought AXA should pay Mrs H the caravan's market value at the date of its loss, with interest on the difference between what it had paid and what it should have paid. And she thought AXA should pay Mrs H £300 compensation for the trouble and upset it had caused at a difficult time.

AXA replied that it had acted within the policy's terms and conditions. It thought issues about the policy limits should be directed to the broker who sold the policy to Mrs H.

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 can understand that Mrs H wants a fair settlement for the loss of her caravan. I was sorry to hear about Mrs H's loss and I can understand that dealing with the claim has been an added burden for her.

Mrs H's complaint is about the settlement of her claim, not its sale or administration. So I'm satisfied that the complaint should be directed to the policy's underwriter, which is AXA in this instance.

Mrs H said she paid £8,000 for the caravan and this was the amount she stated as its value on her policy documents. I can see that the policy requires Mrs H to provide accurate information and I think she did this when she stated the caravan's value. The claim fell within the policy year. And I can't see that Mrs H was asked to tell AXA about any increases in the caravan's value during the contract.

AXA's expert valued the caravan's market value at its date of loss as £11,995. He said this took into account the current high demand due to the pandemic. And he said the caravan wasn't valued in the motor trade guides we use. So I think AXA could reasonably rely on his expert valuation.

But AXA said Mrs H had underinsured the caravan by 33%, the difference between the market value at its date of loss and the value stated on the policy.

I can see that the policy warns consumers about undervaluing:

“COVER TYPE: Market Value

Please make one final check that your sums insured/limits of indemnity are adequate as claims payments could be proportionately reduced if any sums insured are too low.”

And I can see that on page 6 of the policy booklet Mrs H was told:

“How much to Insure for?

It is up to you to make sure that the amount you insure for represents the full value of the property concerned. For Caravan, Contents, Equipment & Awnings, this means the full cost of replacing all the property as new.

If you have selected Market Value, this is cost of replacing the Caravan, taking into account its type, age, wear and tear and general condition in the open market at the time of the loss.

Remember, if you underinsure any claims payment may be reduced. Please refer to Page 23 for a full explanation of this condition.”

And on page 14 and again on page 23, the policy booklet explains

“If the Sum Insured is less than the full replacement cost. We will only pay the same proportion of the loss or damage as the Sum Insured bears to the full replacement cost.

For example, if the Sum Insured represents only one half of the full replacement cost We will only pay for one half of the amount lost or damaged.”

And so AXA deducted 33% from the amount Mrs H had stated and it offered her a maximum of £5,360 in settlement of her claim.

The caravan was deemed to be a Category C total loss. Mrs H said she would retain the salvage, and AXA said this would cost her £3,358.60, as calculated by the salvage agent. It deducted the £150 policy excess. And so the final settlement offered to Mrs H was £1,851.40.

Our approach is that it's fair and reasonable for insurers to apply deductions for underinsurance if this has led to the consumer paying a lower premium than they would have done if the item had been insured for its full value. But I don't think it's fair or reasonable for AXA to apply underinsurance terms in Mrs H's particular circumstances.

This is because I don't think it's reasonable to expect Mrs H to have predicted that there would be an increase in the caravan's value due to the pandemic. I think she stated the caravan's value as the amount she'd paid for it. This was in keeping with the policy requirement for market value cover, as stated above. And I don't think it's fair for AXA to expect Mrs H to have researched changes in its value. And the policy didn't require her to update AXA about any unexpected increases in its market value.

So, to resolve Mrs H's complaint, I think AXA should offer her the valuation of the caravan's market value at its date of loss, as estimated by its expert and in keeping with the policy's terms and conditions. Mrs H has been without her money for some time. And so I think AXA should reasonably add interest to the difference between what AXA paid and what it should have paid when it incorrectly settled the claim, £6,635. And I think it can reasonably deduct the policy excess and salvage value from this settlement if Mrs H still wishes to retain the caravan.

I think Mrs H has been put to significant trouble and upset by AXA's unfair decision. Our Investigator thought AXA should pay Mrs H £300 compensation for this. I think that's fair and reasonable as it's in keeping with our published guidance for the impact this had.

Putting things right

I require AXA Insurance UK Plc to do the following:

1. Settle the claim in full and pay Mrs H the market value of the caravan at the date of the

loss, without any deduction for underinsurance (subject to deductions for policy excess and salvage).

2. Add interest on the amount of £6,635 at the rate of 8% simple per annum from the date when the claim was incorrectly settled until the date of full settlement†.
3. Pay Mrs H £300 for the distress and inconvenience caused.

†If AXA considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mrs H how much it's taken off. It should also give Mrs H a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons given above, my final decision is that I uphold this complaint. I require AXA Insurance UK Plc to carry out the redress set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 18 October 2022.

Phillip Berechree
Ombudsman