

The complaint

Mr and Mrs P are unhappy with the amount Fairmead Insurance Limited has offered to pay for a claim made on their home insurance policy.

For simplicity, I'll refer to Mr P only. Reference to Fairmead includes its agents and representatives.

What happened

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

- Mr P got in touch with Fairmead in February 2022 about damage to his home following a storm. Fairmead accepted the claim and made an offer to settle it.
- Fairmead said at the renewal prior to the claim, Mr P had insured his property for £500,000 – but he should have insured it for £1,200,000. And if he had done so, he would have paid a much higher premium. Fairmead said Mr P had paid around 20% of the premium he would have done had he insured his property for the higher amount. It offered to pay 20% of the claim value as a result.
- Our investigator didn't think Fairmead had acted fairly. She thought it was fair to consider what information would likely have been available to Mr P at the time of the renewal to decide how much he should have insured the property for. She noted online rebuild cost calculators gave an average of around £600,000. And the report valuing the rebuild cost at £1,200,000 had been carried out by a surveyor for Fairmead as part of the claim – so it's not something that would have been available to Mr P when renewing the policy.
- To put things right, our investigator suggested Fairmead recalculate the premium had Mr P insured his property for £600,000. And based on the proportion of that premium Mr P had paid, settle the claim at that percentage.
- Fairmead didn't agree with that suggestion. In summary, it said the surveyor's valuation was specific to the size, location and build quality of the property. Whereas rebuild calculators are more generic and are based on 'average' house types, which can artificially lower the value.
- Our investigator wasn't persuaded to change her mind. She didn't think it was reasonable to expect Mr P to carry out a valuation to the same standard as the surveyor before taking out the policy. And relying on a rebuild calculator to estimate the cost wouldn't be unreasonable.
- Mr P accepted what our investigator had said. His insurance broker provided information about the sales process and premiums. They said Mr P would have had the option to insure his property for £500,000 or £1,000,000. He chose the former and paid £366.36. Had he chosen the latter he would have paid £428.64. On the

basis Mr P should have chosen £1,000,000, that meant he'd paid 85% of the premium he should have done.

- Later, Fairmead questioned why the claim shouldn't be settled on the 'underinsurance' term in the policy.

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.

This complaint is solely about Fairmead – whether it would be fair for it to reduce the claim settlement and, if so, by how much. The policy was sold by an independent broker. Fairmead isn't responsible for the broker. So in this decision, I won't be able to consider the actions of the broker, including the way the policy was sold.

Fairmead's position is unclear. At the time of its final response, it offered to pay 20% of the claim. This was based on the proportion of the premium Mr P had paid (around £350 for a £500,000 sum insured) compared to the premium Fairmead thought he should have paid (around £1,600 for a £1,200,000 sum insured). This approach isn't based on any policy term.

However, more recently Fairmead has questioned why the claim shouldn't be settled based on a policy term. This term says that if the sum insured doesn't reflect the full rebuilding cost, the claim will be settled based on the proportion of the actual sum insured compared to what the sum insured should have been. If Fairmead were to rely on that term, it would have to increase its offer to around 40% (£500,000 divided by £1,200,000). But it hasn't done that.

This gives the impression that Fairmead isn't entirely clear on what approach it thinks should be taken. I've thought about what a fair approach would be in the circumstances of this case, and I agree with the one set out by our investigator. I'll explain why that is.

In summary, Fairmead has proposed to reduce the claim settlement as it says Mr P didn't insure his property for enough at the November 2021 renewal.

Fairmead has shown the policy contains the underinsurance term noted above. But I'm not persuaded it would be fair to rely on it in this case.

This dispute centres on one thing – the amount Mr P insured the property for when he took out the policy. So, whilst I recognise Fairmead may seek to rely on the underinsurance policy term, it's ultimately doing so because it thinks Mr P didn't provide the right information at the time he took out the policy. Because of that, I think it's fair to consider what happened at that time, as well as the policy term.

Fairmead would like the sum insured to reflect the full cost of replacing the buildings. At the renewal, it wanted to know what the sum insured should be to achieve that. It was told £500,000 would be sufficient – but it doesn't agree that's enough. So I've thought about what a reasonable figure would have been, based on what Mr P ought reasonably to have known at the time.

After Mr P reported the damage, Fairmead arranged for a loss adjuster to visit his property. Amongst other things they considered the rebuild cost of the property and estimated it at £620,000. As that value was greater than the sum insured, Fairmead arranged for a surveyor to estimate the rebuild cost.

The surveyor provided a detailed report on their considerations and estimated the rebuild cost at around £1,200,000. Fairmead had concerns about the accuracy of the surveyor's valuation. It noted the report estimated the rebuild cost of the car port at nearly £24,000 but Mr P's quote for rebuilding it was around £14,000. And it included items, such as a contingency, which Fairmead has accepted isn't relevant. This suggests the valuation may overestimate the likely rebuild cost to Mr P. But Fairmead relied on it nonetheless.

Mr P's broker provided information available from online rebuild cost calculators. One estimated the rebuild cost at £590,000. Another provided a range between £517,000 and £717,000. Both of these estimates were carried out in December 2022. That was over a year after the relevant time, so it's likely these estimates are higher than those that would have been available in November 2021.

I think this evidence shows the inherent difficulty in expecting a consumer to accurately estimate a rebuild cost. A loss adjuster who is likely to be very familiar with estimating rebuild costs suggested around £600,000 but a surveyor estimated twice that much. That's a significant difference between two professionals. And the estimates available on the rebuild calculators vary significantly.

I wouldn't expect Mr P to go to the cost and effort of having a professional survey carried out to value the rebuild cost at each renewal. Instead, I think it would be reasonable to expect him to consider more readily available information – such as any recent valuations and/or online rebuild calculators – and weigh up what a reasonable estimate would be. Whilst online calculators may not be as accurate as a bespoke report by a professional surveyor, I don't find that unreasonable. Many insurers and intermediaries actively point consumers to these calculators to help estimate the rebuild cost. And aside from paying for a professional survey, which I don't think it would be reasonable to expect a consumer to do, I'm not aware of any other more accurate or helpful options available.

Here the calculators broadly estimate a rebuild cost of around £600,000. So I'm satisfied that would have been a reasonable figure for Mr P to arrive at, based on the information and support that would have been available to him at the time he took out the policy.

I recognise a bespoke survey by a professional is generally likely to be more accurate than the calculators. But this isn't something that would have been available to Mr P when taking out the policy. I also note that Fairmead identified potential inaccuracies and overestimations in the surveyor's report, which would make it difficult to fairly rely on it in any event.

The broker has explained that Mr P would have had a choice between £500,000 and £1,000,000 when setting the sum insured for his policy. Based on what I've said above, the higher figure is likely to have been the more reasonable option.

The question then is what difference this would have made to Fairmead. The evidence available to me shows it would have charged Mr P £428.64 for this higher sum insured, rather than the £366.36 it charged for the lower sum insured. That means he paid 85% of the premium he should have done. Accordingly, I'm satisfied that means it would be fair and equitable for Fairmead to pay Mr P 85% of the claim value. The remaining terms and conditions of the policy apply, such as the excess, apart from the underinsurance term.

Returning to the underinsurance policy term, based on my findings above, Mr P was insured for around 83% of the amount he ought to have been (£500,000 compared to £600,000). Given he paid 85% of the premium he ought to have done, I don't think it would be fair for him to only receive 83% of the claim value in return. So I'm not persuaded it would be fair for Fairmead to rely on the underinsurance policy term.

My final decision

I uphold this complaint.

I require Fairmead Insurance Limited to pay 85% of the claim value, subject to the remaining terms and conditions of the policy.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P and Mr P to accept or reject my decision before 9 March 2023.

James Neville
Ombudsman