

The complaint

Mr C is unhappy that AXA Insurance UK Plc offered a reduced settlement amount for a claim he made on his home insurance policy.

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:

- In 2019, Mr C took out home insurance through a broker, who I'll refer to as B. The underwriter was AXA. It renewed in 2020 and 2021.
- Mr C got in touch with AXA after his summerhouse was damaged during a storm.
- AXA accepted the damage was covered by the policy and agreed to settle the claim. But it said Mr C had underinsured the outbuildings. It thought they should have been insured for around £20,000 but were only insured for £7,500, or about 37%. AXA relied on a policy term to reduce the claim settlement in line with this percentage.
- Mr C didn't think this was fair. He accepted his outbuildings were only covered for up to £7,500 but as the cost of putting the damage right was less than this, he didn't think his claim should be reduced. He said he hadn't been made aware prior to the claim that he was underinsured.
- Our investigator thought the complaint should be upheld. She thought it was fair to consider what AXA would have done if Mr C had been insured for a higher amount. It hadn't provided any evidence about this, so it seemed AXA would have been prepared to offer the same policy for the same premium even if Mr C had a higher sum insured. Because of this, she thought it would be unfair for AXA to reduce the claim settlement. She said AXA should pay the claim in full, up to the £7,500 limit and less the excess, together with £100 compensation for the delays caused.
- Mr C accepted what our investigator said. AXA didn't. It said the way B sold the policy had made it clear what Mr C needed to do to ensure his outbuildings were sufficiently insured. And the policy wording clearly set out the definition of the word 'outbuildings' and included a policy term allowing it to reduce the claim settlement. It also said that if Mr C had insured his outbuildings for around £20,000, the premium for that part of the cover would have increased from £9 to £24 – which meant he'd paid around 37% of the premium he should have done. So overall AXA thought reducing the claim by 37% presented a fair position.

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.

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 C is insured for is less than the rebuild cost, the claim will be settled at the percentage Mr C is insured for. Here that's around 37%.

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 C gave the right information at the renewal prior to the claim, in 2021. So I think it's relevant to consider what happened then – and what impact, if any, there was on the renewal if Mr C didn't give the information he should have done.

According to the policy term, AXA wanted to know how much it would cost to completely rebuild all Mr C'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. Mr C hasn't challenged AXA's estimate that the outbuildings would cost around £20,000 to completely rebuild, so it seems to be accepted that his answer was unreasonable at the 2021 renewal.

I think it's fair to go on to consider what impact that had on AXA. So, if Mr C had said the rebuild cost was around £20,000, what difference – if any – would that have made to AXA?

It's very disappointing to see that despite our investigator asking for this information several times during her investigation, AXA only provided it *after* she upheld the complaint. But now that the information has been provided, I think it's reasonable to take it into account.

The information provided shows how the premium for outbuildings cover would have increased had Mr C increased his cover from £7,500 to £20,000. The way the information is presented suggests that outbuildings cover can't be purchased separately – it can only be purchased alongside buildings cover. That's consistent with the online sales options. So rather than focusing on the proportion of the outbuildings premium Mr C paid, I think it would be fair to consider what proportion of

the overall buildings premium he paid. Based on the information provided by AXA, that's around 93%.

Overall, that means Mr C paid 93% of the premium he should have done for his buildings cover, including outbuildings. Accordingly, I'm satisfied the fair and equitable position is for AXA to pay him 93% of his claim value, less the excess. AXA said it would cost £2,040 to put right the damage and Mr C seems to have agreed. After reducing the claim to 93% of its value and deducting the £400 excess, that means AXA should pay Mr C a total of £1,497.20.

AXA originally offered Mr C £765.34. If it's already paid this amount to him, it need only pay the additional £731.86. AXA's offer was made on 29 March 2022. So Mr C has been unfairly without some money for over a year. That might be the full £1,497.20 or the additional £731.86. Either way, I think it would be fair for AXA to add interest to the amount left to pay to reflect that Mr C has been without it unfairly.

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.

AXA didn't respond to my provisional decision.

Mr C did. He said he accepted my provisional decision but wanted to clarify that he'd been offered £765.34, less the £400 excess, so he'd been paid £365.24 so far. AXA should take that into account when it calculates how much it should pay to settle the claim.

As Mr C has accepted my findings and AXA hasn't challenged them, I see no reason to change them or comment further.

My final decision

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

- Pay a total of £1,497.20 to settle the claim.
- Pay interest on the outstanding amount left to pay, at 8% simple per year, from 29 March 2022 to the date of settlement*.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 7 June 2023.

James Neville
Ombudsman