

## **The complaint**

Miss P and Mr T complain about Fairmead Insurance Limited (FIL) and their recommendation that they include VAT on his buildings sum insured total.

Mr T has acted as the main representative during the claim process. So, for ease of reference, I will refer to any actions taken, or comments made, by either Miss P and Mr T as “Mr T” throughout the decision.

## **What happened**

Mr T took out a home insurance policy through a broker, underwritten by FIL. As part of the renewal process in August 2022, Mr T was required to provide a buildings sum insured total. But Mr T was unhappy that he was advised to include VAT within this amount, when he felt a total rebuild of his property would be exempt from VAT charges. So, he raised a complaint.

Mr T didn't think FIL were fair to expect Mr T to include VAT on top of the total amount it would cost to completely rebuild his home. And he felt this was stipulated to increase the premium he paid. Mr T was unhappy that, should he be required to make a claim on his policy, and he didn't include the VAT element, any claim he made would be settled proportionately on the basis he was underinsured. So, he wanted FIL to confirm he only needed to provide the total rebuild cost, less VAT. And, that should he need to make a claim, any settlement wouldn't be settled proportionately.

FIL responded to the complaint through their agent and didn't uphold it. They thought the advice provided to Mr T was fair, considering each claim is settled on its own individual circumstances. They explained that, although VAT isn't charged on a full rebuild, it would be charged in other situations where a building isn't completely destroyed and so, this is why they recommended VAT be included. FIL also explained Mr T would be able to cancel the policy should he remain unhappy. Mr T was unhappy with this response, so he referred his complaint to us.

Our investigator looked into the complaint and didn't uphold it. They explained it isn't our role to state how a customer should answer questions asked by an insurer. And they were satisfied that FIL had provided fair and reasonable advice, based on the evidence and reasoning they had been provided. So, they didn't think FIL needed to do anything more on this occasion.

Mr T didn't agree. He maintained his belief the advice FIL gave regarding whether to include VAT or not was intended to increase the premium price. And he expressed his unhappiness with FIL's response to his complaint, and how long this response took to be sent. Mr T also sent into documentation from another insurer, which he felt supported his position. As Mr T didn't agree, the complaint has been passed to me for a decision.

## **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.

Having done so, I'm not upholding the complaint for broadly the same reasons as the investigator. I've focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

First, I want to recognise the impact this complaint has had on Mr T. I appreciate Mr T feels strongly about the situation and I've carefully thought about his comments and why he feels he's been unfairly treated. This includes the comments he's made about scenarios that may have happened, had he needed to claim on the policy in question.

But crucially, Mr T has not needed to claim on the policy. So, these scenarios remain hypothetical. Our service is unable to award compensation for any hypothetical scenario as we're only able to consider the direct impact caused to customers. Because of this, while I understand why Mr T is unhappy that he may have been deemed to have been underinsured if he made a claim, at this moment he hasn't as he hasn't claimed. Mr T would be able to complain about the way FIL settles a claim in the event he makes a claim and is unhappy with FIL's handling of it.

Our service is also unable to consider Mr T's concerns about FIL's handling of his complaint as this is an unregulated activity and so outside of our jurisdiction. Because of this, the timescale in which FIL responded, and the tone of FIL's communication when they did respond, isn't something I've thought about any further.

What our service is able to do is consider the advice FIL has given, and actions they've taken, and decide whether we think this was both fair and reasonable. We don't set the rules and regulations insurers are expected to work within. These are set by the industry regulator, the Financial Conduct Authority (FCA). So, my decision will not be providing a definitive answer on whether a customer, in this case Mr T, should or should not apply VAT to the buildings sum insured total amount. If Mr T would like a definitive answer, or clarification around this, he should contact the FCA directly.

I've seen FIL's explanation for the advice they provided to Mr T, suggesting the VAT should be included on the total amount. And I've seen a white paper they provided to support this stance, which I think makes it reasonably clear there is no set approach for all home insurance policies stating whether VAT should be applied or not.

What the white paper does make clear, alongside the document provided by Mr T, is that although total rebuild costs for a home are zero rated for VAT, this isn't the case for other costs that may be occurred during this process. This includes things like legal fees, demolition costs as well as landscaping and architect fees. So, I think that there may be a possibility in certain circumstances that, where a complete rebuild is needed, the total costs of this would exceed the rebuild cost of the home itself. So, I can understand why FIL would state the total insured amount should included VAT, to ensure Mr T had the appropriate cover to ensure all costs fall within the limits of his policy.

I don't think I've seen any evidence that suggests to me FIL gave this advice maliciously, with the sole intent of increasing the premium they received from Mr T. While I understand why Mr T would assume this to be the case, I need to see substantive evidence that persuaded me this was FIL's intention, more likely than not. And I don't think this is the case here. I also note that FIL have offered to cancel the policy and provided Mr T with a pro-rata refund so he can obtain insurance elsewhere that he feels is more suitable. And they have stated they wouldn't charge Mr T any administration fees to complete this cancellation. I think this shows FIL attempting to act fairly, given Mr T's concerns.

Because of all the above, I don't think I'm able to say FIL have acted unfairly on this occasion. Nor can I say the stance they've taken is unreasonable. Because of this, I don't think FIL need to do anything more.

### **My final decision**

For the reasons outlined above, I don't uphold Miss P and Mr T's complaint about Fairmead Insurance Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P and Mr T to accept or reject my decision before 13 June 2023.

Josh Haskey  
**Ombudsman**