

The complaint

Mr H1, Mrs H1 and Mr H2 are unhappy that Fairmead Insurance Limited offered a reduced settlement amount for a claim they made on their home insurance policy.

As Mr H1 has primarily dealt with things, for simplicity I'll refer to him only and call him Mr H.

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 H has taken out home insurance through a broker since 2014. In February 2021, the policy renewed and Fairmead became the underwriter.
- Following a fire at his home in January 2022, Mr H got in touch with Fairmead. It accepted the claim for damage to the building and contents. But it had concerns that the building was underinsured and arranged for a rebuild valuation to be carried out.
- Fairmead said Mr H hadn't insured the building for enough. At the renewal prior to the claim, February 2021, the building was insured for £1,000,000. However, Fairmead thought he should have insured it for around £1,900,000 based on its valuation. As a result, Fairmead offered to pay around 53% of the building claim.
- Mr H didn't think he'd been treated fairly. He complained about the time the claim was taking and the settlement Fairmead had offered. And Mr H said:
 - Fairmead's valuation was overstated and inaccurate in a number of ways. For example, it included a swimming pool he doesn't have. And whilst its valuation of the garage was over £300,000, its contractor had quoted less than half that amount to rebuild it as part of the claim.
 - He arranged for Fairmead's contractor to estimate the full rebuild cost. It came to around £1,100,000 when carried out in February 2023.
 - He provided a mortgage valuation from October 2020 which estimated the rebuild cost at around £1,100,000.
 - In February 2021, he used a reputable online rebuild calculator, which suggested a figure of up to around £750,000 for his property.
 - Mr H thought this information showed £1,000,000 was a reasonable amount to be insured for in February 2022.
- Fairmead accepted there had been some small delays and offered £150 compensation. And it thought it was entitled to rely on its valuation and reduce the claim settlement in line with the corresponding degree of underinsurance.
- After prompting by our investigator, Fairmead recognised its valuation was based on June 2022 figures. It backdated the figures to the February 2021 renewal. That decreased the valuation to around £1,700,000 and increased the settlement offer to

58%. But it didn't think any other changes to the valuation were warranted. And it didn't think the information Mr H had provided outweighed its valuation.

- Our investigator thought the complaint should be upheld. She said it was reasonable for Mr H to insure his building for £1,000,000 at the relevant time, based on the information available to him then – the two valuations. Since then, two more valuations, for significantly different amounts, had been provided, showing the inherent difficulty of expecting a consumer to accurately estimate the rebuild cost. The lower valuation was in line with the sum insured. The higher one wasn't, but its reliability had been called into question. She also noted that Fairmead hadn't shown that a higher sum insured would have had any impact on the premium paid.
- To put things right, our investigator said Fairmead should settle the claim without a reduction for underinsurance. And she said it should increase the compensation to £500 for the delays, distress and inconvenience caused.
- Fairmead didn't agree with this outcome. I'll summarise the key points it made:
 - The policy was sold on a non-advised basis, so it was up to Mr H to ensure he had enough cover.
 - It wouldn't be fair for consumers to pay additional premiums to have their claims met in full when they haven't taken out enough cover.
 - Its valuation was the only professional advice, and it was independent, so it shouldn't be dismissed. It holds more weight than the information Mr H has provided to support his view that £1,000,000 was reasonable.

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.

The policy was sold by a broker, who was acting independently. That means in this complaint, I can't consider how the policy was sold by the broker. I can only consider how Fairmead acted in relation to the things it was responsible for – the claim.

At the February 2021 renewal, Fairmead wanted to know what it would cost to rebuild Mr H's building. In summary, this complaint has arisen because Mr H insured his building for £1,000,000 at that time. But Fairmead doesn't think that was enough and has reduced the settlement offer as a result. And Mr H says there have been delays.

The onus was on Mr H to provide a reasonable estimate of the rebuild value. Fairmead hasn't argued that he was required to do that in any particular way, for example by arranging for a professional valuation along the lines Fairmead did. So, I think all that could reasonably be expected of Mr H was to take into account any information and/or guidance that he was, or ought reasonably have been, aware of at the time, to reach an estimate.

Mr H has shown he had a mortgage valuation carried out in October 2020. It was prepared by a professional valuer for mortgage purposes. So I think he was entitled to rely on it as a credible source of information about the rebuild cost. It estimated that figure at £1,100,000.

He also used a reputable online rebuild cost calculator. That provided a wide range of estimates with the uppermost being around £750,000. I think the calculator is generally likely to be less reliable than an estimate based on an inspection of the building. But it nonetheless provided useful information for Mr H to consider.

Based on these two estimates, I'm satisfied it was reasonable for Mr H to estimate the rebuild cost at £1,000,000. It's between the two estimates, but closer to the more reliable one. Mr H could have been more cautious and relied on the highest of the estimates available to him, but I'm not persuaded he ought to have done so. And I'll explain later on why I haven't been persuaded that would have made a difference anyway.

I'm not aware of any other information that was, or ought reasonably have been, available to Mr H at that time, which he should have taken into account. Fairmead hasn't mentioned any.

Instead, Fairmead is relying on a professional survey it arranged in 2022. I know Fairmead considers that this is the most accurate of all estimates, so it should outweigh the others. However, its own contractor produced a significantly different, and lower, estimate. Whilst I agree with Fairmead that the survey report is more thorough than what the contractor has produced, I must consider what's fair and reasonable in all the circumstances.

The survey is simply an estimate for the purpose of considering whether Mr H is sufficiently insured. Whereas the contractor's figures would contribute to the settlement of the claim, either by carrying out the scheduled repairs or by forming the basis of a cash settlement. I'm not satisfied it would create a fair and reasonable outcome if, for example, Fairmead reduced the settlement on the basis of the higher valued survey, whilst it calculated the settlement on the basis of the lower valued estimate.

Even if it were accepted that the survey was accurate and fair to rely upon – which it's not – Mr H couldn't have taken it into account in 2021. And nor was he required to have his own professional survey carried out at that time. So I don't think it would be fair to conclude his answer was unreasonable based on this information.

Because of this, I'm satisfied Mr H's estimate was reasonable at the time, based on what he knew then – which included credible and reputable estimates of the rebuild cost. I don't think he could have been expected to do more than that. So I'm not satisfied it would be reasonable to reduce the claim settlement at all.

Even if I thought it were reasonable to reduce it, I would have to consider how it should be reduced. Fairmead has offered 58% because Mr H is insured for around 58% of the amount Fairmead thinks he should be.

However, this method of reduction isn't in line with the relevant rules where a policyholder has given an unreasonable answer. The rules say an insurer should reduce the claim in line with the proportion of the premium paid compared to the premium that would have been charged had the answer been reasonable.

Our investigator asked Fairmead to show what premium it would have charged for a higher sum insured, but it hasn't done so. And it seems to have misinterpreted that as a direction to allow Mr H to pay any shortfall in the premium to have the claim covered in full – which isn't what the investigator suggested.

Overall this means that *even if* I had found Mr H failed to give a reasonable estimate at the February 2021 renewal, and he should have provided a higher figure, Fairmead hasn't shown what impact, if any, that would have had on the premium. So it hasn't shown it would be fair and reasonable to apply a proportionate settlement. In these circumstances, I'm not satisfied Fairmead has shown why a reduction of any amount, let alone 58%, is reasonable.

To put things right, Fairmead should settle the claim without making any deduction for what it considers to be underinsurance. All other policy terms and conditions remain.

I think it was reasonable for Fairmead to look into the possibility of underinsurance initially. It's entitled to check whether the sum insured is a fair estimate when dealing with a claim. But it should have reached the position we're in now much sooner. Had it done so, the delays would have been kept to a minimum. And that would have avoided much distress and inconvenience to Mr H. As a result, I think Fairmead should pay compensation. I'm satisfied £500 is reasonable in the circumstances. If its already paid the £150 it offered, it need only pay the remaining £350.

My final decision

I uphold this complaint. I require Fairmead Insurance Limited to:

- Settle the claim without making a deduction for underinsurance.
- Pay a total of £500 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H, Mr H and Mrs H to accept or reject my decision before 28 August 2023.

James Neville
Ombudsman