

The complaint

Mr and Mrs G have complained about their property insurer Fairmead Insurance Limited because it said they were underinsured and paid a pro-rated settlement for their fire claim.

Fairmead underwrites the policy, but it is branded and administered by a different company. That company sometimes replies to complaints on Fairmead's behalf too. Fairmead is responsible for that company. So Fairmead is the respondent for this complaint and I will refer mainly to Fairmead.

What happened

Mr and Mrs G had their house valued in 2019. It was said to be worth £260,000. They arranged an insurance policy via a broker with Fairmead in January 2020 with a sum insured of £250,000.

In late July 2020 there was a fire at the home. Fairmead began assessing the claim. But it decided the property's re-build value was around double the sum insured stated in the policy. It said that meant it was only providing 49.5% cover, and it would settle the claim in cash, on that basis. Which would mean it would only pay Mr and Mrs G 49.5% of the likely reinstatement costs.

In January 2021 Mr and Mrs G complained to the Financial Ombudsman Service. They told us that Fairmead had just paid them a pro-rated settlement based on its view that it had 49.5% liability for their loss. Our Investigator contacted Fairmead and it acknowledged the complaint, sharing with us what it referred to as a final response letter it had issued in November 2020. Our Investigator confirmed that Mr and Mrs G had complained within six months of that letter being issued and that it did not contain the content required to be viewed as a final response letter. Fairmead said it would review Mr and Mrs G's complaint as it had last looked at their concerns before the settlement offer was made to them. It asked for time to be able to do this.

Our Investigator subsequently asked Fairmead to provide its file so we could consider Mr and Mrs G's complaint against it. Following several emails chasing provision of the file, in March 2023, our Investigator issued a view based on the detail he had available. He felt Fairmead hadn't shown it had calculated the value of the property correctly. He said Fairmead should reconsider the claim, adding 8% interest to any settlement made.

In mid-April 2023, with no response having been forthcoming from Fairmead, our Investigator told both parties he would be referring the matter to an Ombudsman for a decision to be made. Fairmead then told our Investigator it wanted to look into this matter further. It asked for a little while to do so. At this time the complaint had been passed to me to consider. I asked our Investigator to tell Fairmead that it could have a short stay in order to do so – and I'd certainly consider anything it then presented. However, it should be aware that, based on the detail available, I was minded to uphold the complaint.

Several weeks passed. Fairmead, despite our Investigator contacting it again, did not provide any further comment or detail, and Mr and Mrs G confirmed they had not heard

from it directly. I reviewed matters and issued a provisional decision to share my reasons with both parties about why I felt the complaint should be upheld. In short I felt the policy wording was unclear such that Fairmead couldn't reasonably settle the claim as it had.

Mr and Mrs G said they were happy with the findings. Fairmead acknowledged receipt of my decision – but it did not respond further.

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.

Provisionally I said:

"In considering this complaint I find:

- £30,443 has been paid for the buildings claim.
- That was a pro-rated settlement.
- The business says it was only liable for (and therefore only paid) 49.5% of the actual repair cost.
- Based on the above, the total repair cost must have been £61,500 (49.5% of which is £30,443).
- The policy in certain key aspects relating to this complaint, is not clear.
- The unclear policy means it is not fair for Fairmead to settle the claim pro-rata.
- It did that, so that settlement was unfair and unreasonable.
- It seems the following redress is fairly due:
 - A payment equivalent to interest* applied on the sums which have been paid already – totalling £30,443.97 – from the date of loss until each was paid (as that total was not enough to allow Mr and Mrs G to reinstate their home).
 - Payment of £31,056.03 plus interest* from the date of loss until settlement is made, (being the outstanding cost of the building repair based on above figures).
 - £3,000 compensation for upset caused until present date.

I note Fairmead has not presented its file to us – even being given extra time at its own request in order to be able to do so. So I am working off limited detail here. But I'm currently satisfied, based on the detail I've seen, that my bullets above are a fair reflection of the key points of the complaint, briefly explaining my views on it and what I think is needed to put things right. However, I do want to expand a little on the point above regarding lack of clarity.

When a policy is subject to a lack of clarity, then any benefit of doubt is afforded to the contracting party that did not draft it. Here that is Mr and Mrs G. I think the policy is unclear because in the section titled "How we settle claims", the reader is told that the most Fairmead will pay for any claim is the sum insured. There is nothing to alert the reader to the possibility that a claim might be pro-rated for some reason. But, elsewhere in the policy, there is a general condition which says:

"Sums Insured

You have an ongoing duty to ensure that Your sums insured represent the full value of the property insured at all times."

Whilst Fairmead chooses to highlight key policy terms and phrases, listing them and explaining their meaning in a definitions section, neither the phrase "sum insured" nor the word "value" are highlighted or included for explanation in the list. But if the reader continues to read the general condition entitled "Sum Insured", it becomes apparent that both these phrases are extremely important to the cover in place, and that if they aren't understood,

with a mistake in respect of them being made, there might be very serious consequences for the policyholder in respect of how the claim is settled. I don't think that is fair or clear. So I don't think Fairmead can reasonably rely on it in settling the claim for Mr and Mrs G."

Mr and Mrs G have accepted my findings, and Fairmead hasn't raised any objection to them. In light of that, I remain satisfied by the findings issued provisionally, copied here. They are now the findings of this, my final decision.

Putting things right

I require Fairmead to:

- Make a payment to Mr and Mrs G, equivalent to interest* applied on the sums which have been paid already – totalling £30,443.97 – from the date of loss until each was paid (as that total was not enough to allow Mr and Mrs G to reinstate their home).
- Pay Mr and Mrs G £31,056.03 plus interest* from the date of loss until settlement is made, (being the outstanding cost of the building repair based on above figures).
- Pay Mr and Mrs G £3,000 compensation for upset caused until present date.

*Interest is at a rate of 8% simple per year and paid on the amounts specified and from/to the dates stated. HM Revenue & Customs may require the business to take off tax from this interest. If asked, it must give Mr and Mrs G a certificate showing how much tax it's taken off.

My final decision

I uphold this complaint. I require Fairmead Insurance Limited to provide the redress set out above at "Putting things right".

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G and Mrs G to accept or reject my decision before 17 July 2023.

Fiona Robinson
Ombudsman