

The complaint

Mr H is unhappy with what Lloyds Bank General Insurance Limited (Lloyds) did after he contacted it and told it about renovation work he was carrying out at his property.

What happened

Mr H has home insurance with Lloyds which includes legal expenses insurance (underwritten by a different insurer). In May 2022 he called Lloyds and said he was having major renovation work carried out at his property including structural alterations and an extension (at a cost of around £200,000). A condition was added to his policy requiring him to inform Lloyds once the work was completed.

Mr H called back ten days later and asked whether his policy would cover him if he had any problems with his builders. Lloyds confirmed it would. In August 2022 Mr H told Lloyds about a potential subsidence claim as cracking had become visible at his property. That was declined by Lloyds. It said the claim related to excavation work at the property which was excluded by his policy.

By December 2022 building work was incomplete and had stopped. Remedial work was required to the work that had been done. Mr H tried to claim on his legal expenses insurance for assistance in pursuing a claim against the builder. The insurer of that policy turned down the claim. It said the policy excluded claims relating to renovations and extensions. Mr H claimed on his buildings policy for losses and damage caused to his property by the builder. That was declined for similar reasons. Mr H said that contradicted what he'd been told when he spoke to Lloyds in May. Lloyds accepted this and offered to pay Mr H £200.

Our investigator agreed claims arising from renovation work were excluded under both the buildings and legal expenses insurance sections of Mr H's policy. And Lloyds had wrongly told Mr H he'd be covered when he spoke to it in May 2022. He thought Mr H was entitled to rely on what it had said. And he thought it likely if given correct information Mr H would have taken out a separate renovation insurance policy. He said Lloyds should now engage a specialist broker to source a suitable policy and assess Mr H's claim under it. Or it could make good itself the poor workmanship and damage caused by Mr H's builder.

Mr H agreed. Lloyds didn't. In summary it said:

- It was satisfied the subsidence claim had been correctly declined (and the value would in any case be below the policy excess). It thought it was fair to rely on the policy exclusions it had for claims relating to structural alterations. It also drew attention to the lack of coverage for the claim more generally in its policy and other exclusions within it which it thought were relevant here.
- There were remedies set out in law for contract disputes and it wasn't reasonable to expect Lloyds as Mr H's home insurer to cover claims relating to this. It drew attention to the scale of the project (which involved an application for planning permission and an architect) and thought dispute resolution mechanisms should be set out in the agreement between Mr H and his builder. So that was the correct route for resolving these matters.

- It had checked renovation insurance policies available on the market which it didn't believe would provide cover for the claim Mr H had made and didn't offer retrospective cover either.
- As a result, while it accepted it had provided Mr H with incorrect information, it didn't feel this had prejudiced his position. However, it acknowledged he had been inconvenienced by what it got wrong and said it would increase its proposed compensation by £500.

I issued a provisional decision on the complaint last month. In summary I said:

I've looked first at the terms and conditions of Mr H's policy. This contains a general exclusion which says it won't pay claims for damage caused by "renovations, repairs or maintenance work" or for "bad workmanship and design".

The legal expenses section of the policy does cover contract disputes but it excludes "anything relating to the building, converting, extending, altering, renovating or demolishing of your home (this does not apply to common home improvements, such as installing double glazing or replacement kitchens".

The subsidence section of the policy excludes "damage caused directly by you, or someone appointed by you, knocking down buildings or making structural changes or repairs. This applies to any work that might affect the foundation of your buildings".

I think Lloyds are right to say the claims Mr H has made wouldn't be covered under the terms and conditions of this policy. I don't think Mr H is in fact disputing that. Nor does he appear to be pursuing issues relating to the subsidence claim. He's told us that following his claim to Lloyds his builder took action to fix the problem and "I never thought any more about this". So this isn't something I need to consider further in this decision because there's no outstanding issue here.

What I do need to consider is the phone call Mr H had with Lloyds in May 2022. Lloyds has accepted it gave him the wrong information during that call. But I think it's worth detailing some of what was said. Mr H explained he was calling because, from his research, he was aware some home insurance policies wouldn't cover, for example, structural problems caused by a builder. He wanted to make sure this insurance would cover him if something went wrong; for example if the builder did something badly and walked away.

The adviser said Mr H was doing the right thing in checking and said (a number of times) that he couldn't see anything to say he wouldn't be covered by this policy. At the end of the call he said "as far as I'm concerned you're good to go."

Lloyds says if Mr H had read the terms and conditions of his policy he'd have understood what it did and didn't cover. But I don't think that's a reasonable position to take in this case. Mr H had called Lloyds to check on coverage and would reasonably have thought it was in a position to provide him with clear information about a policy it provided. He was given a categorical assurance ("you're good to go"). There was no caveat given by the adviser and there was no suggestion Mr H needed to check this himself. I think he was entitled to rely on the clear and explicit information he was given by Lloyds during this phone call.

But what he was told was wrong. The policy excluded claims relating to renovation work. So I've gone on to think about what's most likely to have happened if Mr H had been given correct information (as he should have been) during this call. The reason for his call was because he was concerned about policy coverage. And he'd already been doing research into this. Mr H has told us that he would "100%" have taken out insurance to cover him if

correctly advised and the reason for this was his past experiences. He said "I'd always aim to ensure that I'm fully covered for all eventualities whether it's car, life or home insurance.... if it can go wrong... it will for me".

I appreciate Mr H is making those comments with the benefit of hindsight. But given his clear interest in coverage and the size of (and risks associated with) his project I think it is most likely that if given correct information by Lloyds he would have investigated and taken out alternative cover.

What's more difficult to know is what policy he'd have taken out and what this would have covered. Renovations insurance policies are widely available but Mr H hasn't been able to find one that would have covered him for everything that happened in this case. He told us "I'm really doubting (other than consumer contract legal coverage) insurance for what's happened eg poor workmanship and / or builder walking off with unfinished work is available to be honest".

Lloyds has also checked renovations policies and hasn't been able to find ones that would cover this either. That matches my understanding of the position. And while Mr H has subsequently commented on other action he would have taken if given the correct information I am mindful of the fact he's making those points with the knowledge of what actually happened which isn't something that would have been available to him when he spoke to Lloyds. On that basis I don't think I could safely conclude that, if given correct information by Lloyds, he'd have had cover in place for a damages claim relating to poor workmanship or the builder walking off the job.

Mr H has commented on further actions he would have taken to check on the insurance his builder had in place if given correct information by Lloyds. But given the nature and extent of the works he was having done I think that's something he could reasonably have been expected to do in any case. And while the assurances Lloyds gave Mr H would have led him to believe his home insurance policy would apply as normal while renovation work was being carried out, I don't think he could have thought it would provide cover outside of its scope and act as a substitute for insurance his builder should have had. So I don't think Lloyds is responsible for issues in relation to this

But I do think it's likely he would have taken out a standard renovations policy and would have included legal expenses insurance as part of that (given his existing policy with Lloyds included that cover). And, as he was happy to go ahead with the works on the basis of the limits and excesses his existing home insurance contained, I think it likely he'd have taken out a renovations policy on a similar basis. I appreciate that policy wouldn't have offered retrospective cover but if correctly informed Mr H would have had this cover in place prior to any problems with his builder taking place.

Our investigator suggested one option was for Lloyds to make good itself the poor workmanship and damage caused by Mr H's builder. However, for the reasons I've explained I'm not persuaded poor workmanship would have been covered under any alternative policy Mr H would have taken out (though damage to his existing property might be). So I'm not going to require Lloyds to do that.

But to ensure (as far as possible) Mr H is in the same position he would have been but for what Lloyds got wrong I think it will need to approach a suitable broker to identify a home renovations policy that includes legal expenses cover with limits and excesses broadly in line with his home insurance policy. And it will then need to arrange for a suitable professional (such as a claims handler or loss adjuster) to consider the claims Mr H has made under the terms of those policies and fund any claims the professional determines should be paid. If there are sums due to Mr H, Lloyds will be entitled to deduct the policy premium that would have been paid for this policy from them. For clarity that assessment will need to include

considering the legal expenses claim Mr H has made against the relevant section of the policy.

Lloyds has commented on the potential contractual remedies available to Mr H. But the issue here is that Lloyds got something wrong when it spoke to him in May 2022. And I think he'd have acted differently and taken out a renovations insurance policy if it had given him the right information. It may be that such a policy would require him to exhaust contractual remedies (potentially with the assistance of legal expenses insurance) prior to covering any damages claim. But that's something the professional who considers the matter will need to consider. It doesn't make a difference to my thinking about the outcome of this complaint.

I've also considered what the right amount is to recognise the distress and inconvenience Mr H was caused by what Lloyds got wrong. It initially offered £200 but offered to increase that by a further £500 in its most recent response to us. In considering what the right amount should be I've taken into account that this has clearly been an extremely difficult time for Mr H given the significant issues at his property and his ongoing dispute with the builder over a number of months.

Lloyds isn't responsible for that but I think the issues over what insurance cover he had in place will have had more impact given that context. I've taken into account that issues relating to insurance cover will be addressed by what I'll be directing Lloyds to do but I do think he's been caused a reasonably significant amount of distress and inconvenience by what Lloyds got wrong. But I think the total compensation it's now offered (of £700) is a reasonable way of recognising the impact on him of that.

Putting things right

Lloyds will need to:

- Instruct a broker with appropriate experience to identify a suitable renovations policy for Mr H's circumstances in May 2022 that includes legal expenses cover with limits and excesses broadly in line with his existing home insurance policy;*
- Arrange for a suitably qualified professional to consider the claims Mr H has made (including his legal expenses claim) against the terms and conditions of that policy;*
- Fund any claims the professional determines should be paid under its terms (less the premium Mr H would have paid for this policy);*
- Pay Mr H a total of £700 in recognition of the distress and inconvenience he's been caused.*

Responses to my provisional decision

Mr H didn't agree with what I'd said and provided detailed comments in a number of emails and on an annotated version of my provisional decision. In summary:

- Mr H went into detail about the impact this matter had had on him and the significant difficulties it was likely to cause going forward. He believed he'd picked a good builder and had checked with Lloyds prior to going ahead with his project. So he didn't think he'd done anything wrong.

- He reiterated what he felt Lloyds had got wrong when he discussed matters with it. He believed that, based on what it said, he'd be covered by Lloyds if the builder's insurance didn't cover him.
- He said if he'd been properly informed by Lloyds he'd have taken out a thorough renovations policy and also warranty insurance which he believed would have covered him for poor workmanship.
- A builder he'd spoken to had confirmed that such policies were available and he provided examples of ones he thought would have provided cover.
- He also said if properly informed by Lloyds further checks were likely to have been carried out on the builder he did engage as that would have been a condition of cover for additional insurance. And even if he hadn't been able to find an alternative policy he might have acted differently in relation to the project itself – for example breaking the work up or finding a different builder.
- He thought Lloyds should be responsible for paying for the remedial works that were required at his property. He didn't agree the £700 it had offered was appropriate given the impact there had been on him and his family as a result of what it got wrong.

Lloyds didn't agree either. In summary it said:

- It had looked at renovations policies it thought would have been available to Mr H at the time and hadn't been able to find one that covered faulty design or poor workmanship (and it provided an example of the exclusion they contained).
- It also provided details of legal expenses insurance policies which said for cover to be provided there would need to be a written contract with the builder and evidence the builder held liability insurance of £1,000,000. It didn't think that was the case here.
- So it argued Mr H wouldn't have met the eligibility criteria for any policies he did take out in May 2022 and so didn't think the issues he was facing were as a result of what it got wrong. And it didn't feel it was fair to ask it to now source an appropriate policy retrospectively. It said if Mr H could identify a policy that would have covered him it would be happy to carry out the actions set out in the provisional decision in relation to that.

So I need to reach a final 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.

I've read and considered all of the comments that both Mr H and Lloyds have made. However, I've only addressed in this decision those that I consider are material to the outcome I'm reaching on the complaint.

I don't think there's any dispute the issues Mr H has had with his builder have, and continue to have, a significant impact on him and his family. I was sorry to learn about that and of the very difficult situation he's now in. And there's also no dispute Lloyds got things wrong when it spoke to him about the renovation work he was having done. The issue remains whether, if he'd been given correct information, Mr H would have insurance in place that would cover the work that's now required at his property and the claim he's pursuing against the builder.

Mr H believes if correctly informed he'd have sourced and obtained a policy that would have covered him for faulty workmanship. And he's provided examples of warranty policies he thinks would have done so. However, I've reviewed those policies and I'm not persuaded that is the case. Although there is only limited information available, my understanding is these warranty policies would primarily provide cover for latent defects (a problem that isn't apparent during the build process and is only discovered later). But in this case the problems with Mr H's property became apparent during the build.

In any event at the point Lloyds spoke to Mr H he couldn't have known about the problems he'd subsequently encounter with his builder. So knowledge of that isn't something that could have informed his decision making at the time. Given that, and the fact it remains unclear whether he could have obtained cover for all that subsequently happened, I can't conclude Mr H didn't have insurance in place for faulty workmanship because of what Lloyds got wrong.

Mr H has commented on other actions he might have been taken if he'd been given the correct information such as carrying out further checks on the builder (or using a different builder). But I don't think that's something Lloyds can be held responsible for. As I said in my provisional decision I accept the assurances it gave would have led him to believe his home insurance would operate as normal while renovation work was being carried out. But during his call with Lloyds the adviser did reference the fact the builder should have their own insurance. And I don't think Mr H could reasonably have thought his policy with Lloyds would provide cover outside of its scope or substitute for checks any consumer might reasonably be expected to carry out when having significant building work carried out.

On that basis I don't agree Lloyds needs to pay for the remedial works required to Mr H's property. But I do think, for the reasons I set out in my provisional decision, that if given the correct information he is likely to have sourced and taken out a standard renovations policy and would have included legal expenses insurance as part of that (given his existing policy with Lloyds included that cover).

Lloyds doesn't think any policy he did take out would have provided cover because Mr H wouldn't have met the eligibility criteria. It's highlighted in particular that he didn't have a written contract with his builder or information on the insurance cover the builder held (though Mr H has told us the builder did have insurance).

However, I said in my provisional decision that Lloyds should arrange for a suitable professional (such as a claims handler or loss adjuster) to consider any claims Mr H made under the terms of the policies that would have been in place and fund any claims the professional determines should be paid. So the question of whether cover should be provided for any claims Mr H wants to make is one that should be decided by that person.

In doing so I'd expect them to take into account not only the policy terms but what's fair and reasonable in all of the circumstances. If there is an issue over Mr H's eligibility for cover that would involve considering any arguments Mr H has to as to why he wasn't able to meet those terms and whether it's fair to apply them in this case.

And if the identified policy has specific terms Mr H wasn't aware of because of what Lloyds got wrong (in other words, but for that failing, he'd have taken out the policy and known about them) I don't think it would be fair to apply those. On the other hand, if there are more general requirements that it would be reasonable to expect any customer embarking on a renovation project to be aware of, the position might be different. But these are matters to be considered by the professional Lloyds will need to appoint.

Finally, as I said at the outset I do understand the impact all of this has had on Mr H. I've taken that into account when considering fair compensation. But I'm also mindful of the fact that many of these issues result from the actions of his builder. I do accept that will have been exacerbated by what Lloyds got wrong but I think the £700 it has offered is a reasonable way of recognising the distress and inconvenience Mr H was caused by that.

Putting things right

For the reasons I've explained I don't think there are grounds to change the directions I set out in my provisional decision. So Lloyds will need to:

- Instruct a broker with appropriate experience to identify a suitable renovations policy for Mr H's circumstances in May 2022 that includes legal expenses cover with limits and excesses broadly in line with his existing home insurance policy;
- Arrange for a suitably qualified professional to consider the claims Mr H has made (including his legal expenses claim) against the terms and conditions of that policy;
- Fund any claims the professional determines should be paid under its terms (less the premium Mr H would have paid for this policy);
- Pay Mr H a total of £700 in recognition of the distress and inconvenience he's been caused.

My final decision

I've decided to uphold this complaint. Lloyds Bank General Insurance Limited will need to put things right by doing what I've said in this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 21 August 2023.

James Park
Ombudsman