

The complaint

Mr and Mrs L complain that Accredited Insurance (Europe) Ltd (“AIL”) has offered a reduced settlement for a claim they made under their buildings insurance policy.

Mrs L has primarily dealt with things and been represented at times. For simplicity, I’ll refer to her only.

Reference to AIL includes its agents and representatives.

What happened

I’ll summarise the main points about this dispute:

- Mrs L took out buildings insurance through a broker, A. In September 2020 the policy became underwritten by AIL. It renewed in 2021 with a sum insured of around £2.7m.
- In July 2022, a water leak caused damage to the building. Mrs L made a claim, which AIL accepted in principle. A professional valuation estimated the rebuild cost at nearly £5.5m in November 2022. As a result, AIL said Mrs L was around 50% underinsured and offered to pay that proportion of the claim value.
- Mrs L questioned the relevance of the valuation as it was carried out in November 2022 but applied to the September 2021 renewal.
- AIL accepted it wasn’t fair to rely on that valuation. Taking into account building work inflation since September 2021, and other factors, it reduced the estimate to around £3.7m. And in line with that, it increased its offer to settle the claim to 72.1%.
- Mrs L complained about the claim outcome and the way it had been handled, particularly the time it had taken. She also noted the policy documents said AIL would carry out a ‘professional desktop appraisal’ of the building – and that may result in changes to the sum insured and premium. She had agreed to that but, as she wasn’t asked to pay an additional premium, she understood the sum insured was considered appropriate. So she didn’t think it fair to reduce the claim value.
- In its complaint response, AIL said it was unable to carry out the appraisal in 2020 or 2021 so the onus was on Mrs L to estimate the sum insured. It didn’t think she had done so accurately, so it was entitled to reduce the claim. It apologised for the delay reaching that stage and accepted its initial estimate of the sum insured was incorrect.
- Our investigator thought the complaint should be upheld. She didn’t think Mrs L had given a reasonable answer to the question about the rebuild cost when renewing the policy in 2021. But she also thought AIL had acted unfairly by saying it would carry out an appraisal – and not doing so. To put things right, she suggested AIL increase its offer to 86.05% – halfway between 72.1% and 100%. She also suggested AIL pay £300 compensation for delays and reimburse £314 loan interest.

- Mrs L didn't think this went far enough to put things right. She said she had entered into the insurance contract on the understanding AIL would carry out a survey to ensure the rebuild value was appropriate – and she had been prepared to pay an additional premium if it wasn't. She also said she'd suffered a loss of rent beyond what the policy covered due to the delay during the claim.
- As Mrs L didn't agree, and AIL didn't respond, the complaint has been passed to me.

My provisional decision

I recently issued a provisional decision in which I said:

There are a number of points to consider, so I'll look at each separately.

Reduced settlement offer

There's no dispute here that the claim is covered by the policy. Indeed, a number of payments have already been made to Mrs L. The dispute is whether AIL can limit the claim settlement to 72.1% of the value – prior to taking into account any relevant policy terms, such as applicable excess(es) or policy limit(s) – or whether it should pay more.

There has been much discussion about whether Mrs L provided reasonable information about the rebuild cost at the 2021 renewal. Usually in a complaint of this nature, that's the first thing I would consider. But here I don't think it makes a difference to the outcome, so I don't need to do so. I'll explain why.

In the 2020 policy documents, AIL said "A professional desktop appraisal of your home will shortly be completed which may result in changes to your sums insured and/or an adjustment to your premium or terms applied". It says it didn't carry out such an appraisal prior to the 2021 renewal, so it included the same term in the 2021 policy documents. Despite the renewal taking place in September, by the time of the claim in July 2022 – ten months later – the appraisal still hadn't been carried out.

AIL says the term gave it the option to carry out an appraisal – and it chose not to take that option. As a result, it expected Mrs L to fulfil her duty to provide a reasonable answer.

I don't agree with AIL's interpretation of the term. It says the appraisal *will* be carried out. That's definitive. It doesn't suggest AIL has the option to carry it out and may choose not to do so. In my view, the term reasonably gave Mrs L the impression that AIL *would* carry out the appraisal. And the remainder of the term said it may change the sum insured and premium as a result – so the impact of that appraisal was clear.

Mrs L agreed to the desktop appraisal in 2021 and said she would pay any increased premium required of her. I think it's clear she was aware of the term, understood it, and was prepared to comply with it. So when she wasn't asked to pay an increased premium, I think it was reasonable for her to understand that the sum insured was sufficient.

AIL has clarified that a 'desktop appraisal' is carried out remotely, without the need to visit a property, based on information available online. So there's no need to visit or contact the policyholder. As there would have been no need for a visit or even a call to Mrs L to carry out the appraisal, the absence of these things wouldn't have alerted her to a potential problem.

Whilst Mrs L does have a duty to provide reasonable information, the way the term has been worded effectively transferred that duty onto AIL. That may not have been its intention, but

Mrs L is entitled to rely on what AIL says in the policy documents. And it wouldn't be fair and reasonable for her to lose out because AIL didn't do what it said it would do.

AIL hasn't given a compelling reason for not carrying out the appraisal in either year. It seems to have been a simple administration error or lack of resource – neither of which should impact Mrs L negatively. Had it carried out the appraisal, the sum insured would have been based on it, and there would have been no argument that the sum insured was unreasonable. As a result, it wouldn't have been fair to reduce the claim settlement.

Overall, that means I'm not satisfied AIL acted fairly. To put things right, it should settle the claim without a deduction for underinsurance, subject to the remaining terms and conditions of the policy, such as any relevant excess(es) or policy limit(s).

That will mean making a cash payment to cover the shortfall from the earlier payments. Had the claim not been unfairly reduced, Mrs L would have received this remaining sum of money earlier. It's likely this would have been around the same time she received payment towards the building work. I understand that was early to mid April, so I'm going to set a date of 11 April 2023. As Mrs L has been unfairly without the money since then, AIL should add interest to the cash payment from that date.

Loan interest

Our investigator noted Mrs L had paid £314 interest on a loan to facilitate the work and asked AIL to reimburse this. It didn't challenge or comment on this. I'm satisfied it's a reasonable remedy in the circumstances as Mrs L knew she would face a shortfall in the claim settlement and wanted to return the building to good order as soon as possible.

Compensation

AIL accepted there had been delays, but it didn't offer compensation. Our investigator thought it should do so and it hasn't challenged or commented on that. Had AIL taken the approach I've outlined above, I think it would have avoided several months of delays, frustration and considerable concern for Mrs L. As a result, I'm satisfied it should pay compensation. I consider £500 is reasonable in the circumstances.

Loss of rent

Mrs L says she's lost more rent than is covered as a result of delays caused by AIL. The claim began in July 2022 and I understand repairs were completed around a year later. AIL has accepted there were delays. I think several months were avoidably spent exploring the underinsurance position. Had it not been for that, the flat would likely have been repaired several months sooner, and been available for rent at that time. So if Mrs L can show a loss of rent greater than the cover she has, I may require AIL to make an additional payment as compensation for financial loss caused by the several month delay.

The policy covers loss of rent up to £10,000. AIL has paid that sum to Mrs L. She also received nearly £8,000 from a separate policy with a different insurer, which I understand was the maximum payable under that policy. So it seems Mrs L has received the limit of loss of rent cover under both policies, around £18,000.

The information Mrs L has shared with us doesn't show a loss of rent greater than that sum. I understand this is because she's only shown cancelled bookings – she hasn't estimated what bookings she would likely have received had the flat been available for rent as usual. As it stands, that means she hasn't shown a loss of rent beyond the policy cover, so I don't

intend to require AIL to pay anything at this time. But it's open to Mrs L to take steps to show such a loss if she's able to.

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.

Mrs L responded to my provisional decision to provide more information about her loss of rent. This includes historic records of bookings to estimate how much rent she would likely have received had the flat been available for rent as usual. She didn't comment on any other aspect of my provisional decision.

As I set out in my provisional decision, I thought there had been an avoidable delay as a result of AIL exploring the underinsurance position. The remainder of the claim timescale would always have been required to investigate the claim, agree and carry out the repairs, so I think the delay was limited to that period of around three months.

Mrs L has received the full loss of rent cover available to her of £18,000 across the two policies. I said if she could show a loss of rent greater than that, I may require AIL to make an additional payment as compensation for financial loss caused by the delay. Because I hadn't seen evidence to show a loss greater than this sum, I didn't ask AIL to pay any compensation for financial loss caused by the delay.

The historic booking information Mrs L has now provided showed her loss of rent during the claim was likely to have been significantly more than £18,000. For example, her bookings totalled over £35,000 in the full year prior to the damage.

I estimated the bookings for a three month delay would have been around £10,000 and both parties were invited to comment on that figure.

Mrs L agreed that was a reasonable estimate. AIL misunderstood and said it had already paid the full loss of rent cover available under its policy of £10,000 – but that was paid for the policy cover, not for financial loss caused as a result of delays.

AIL didn't comment on any other aspect of my provisional decision.

Overall, neither party challenged or commented on my findings about the claim settlement, loan interest, or compensation for non-financial loss. So I see no need to consider or comment on these points any further. I remain satisfied they're a fair outcome.

That only leaves the loss of rent to consider. For the reasons given above, I'm satisfied there was an avoidable delay and that caused Mrs L to lose out on rent over and above that was she covered for between the two policies. As a result, I'm satisfied it would be fair and reasonable for AIL to pay £10,000 to compensate Mrs L for her financial loss due to lost rent as a result of the delay AIL caused. This is separate and in addition to the £10,000 payment AIL has made under the policy for loss of rent.

My final decision

I uphold this complaint and require Accredited Insurance (Europe) Ltd to:

- Pay the remaining amount to settle the claim without a deduction for underinsurance, subject to the remaining terms and conditions of the policy.

- Pay interest on that amount at 8% simple per year, from 11 April 2023 to the date of settlement*.
- Pay £314 for loan interest**.
- Pay £500 compensation for non-financial loss**.
- Pay £10,000 compensation for financial loss**.

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

**AIL must pay the award within 28 days of the date on which we tell it Mr and Mrs L accept my final decision. If it pays later than this, it must also pay interest on the award from the deadline date for settlement to the date of payment at 8% a year simple.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L and Mr L to accept or reject my decision before 9 November 2023.

James Neville
Ombudsman