

The complaint

Mr K and Mrs K complain that Red Sands Insurance Company (Europe) reduced the settlement for a claim they made under their home insurance policy.

Reference to Red Sands includes agents and representatives. And, for simplicity, I'll refer to Mrs K as the lead policyholder only.

What happened

The circumstances aren't in dispute, so I'll summarise the background:

- Mrs K took out a home insurance policy in March 2022 through a comparison website. It was underwritten by Red Sands.
- In December 2022 she got in touch with Red Sands about a water problem in an outbuilding. It appointed companies to establish the cause of the problem and a leak was identified in the outbuilding loft. Mrs K arranged for a plumber to fix the leak and Red Sands accepted the claim for the building damage caused by the water.
- Red Sands said it wouldn't pay the claim in full. The outbuilding was insured for £50,000 but it said it should have been around twice that, so it offered to pay 50% of the claim value based on applying 'average'.
- Mrs K didn't think that was fair. Amongst other things, she said she hadn't found an easy way for a layperson to accurately estimate a rebuild cost. She thought 10% of the overall rebuild cost would be reasonable for the outbuilding – which was around the £50,000 she'd insured it for. Red Sands didn't change its position.
- Our investigator thought the complaint should be upheld. She said Red Sands' sales process didn't explain what costs Mrs K should take into account to estimate the rebuild cost of the outbuilding and nor did it offer any guidance on how she might go about estimating such a cost. Also, Mrs K's recent pre-purchase survey didn't provide a rebuild figure for the outbuilding, so she had no professional information to rely on. She estimated around 10% of the overall rebuild cost – and that didn't seem unreasonable. Lastly, our investigator said Red Sands' policy didn't contain an 'average' clause. And the approach it had taken didn't reflect the impact on the premium charged if Mrs K ought to have provided a higher rebuild cost.
- To put things right, she asked Red Sands to settle the claim in full and to pay £300 compensation for the distress and inconvenience caused.
- Mrs K agreed but Red Sands didn't. It said Mrs K had explored many options when taking out the policy, which meant some of the information she gave didn't represent the facts and were based on the impact on the premium alone.

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.

- When responding to Mrs K's complaint and during our investigation, Red Sands has mentioned a number of reasons why it considers some of the information she provided when taking out the policy was wrong or unreasonable. But it only relied on one point to reduce the claim – the sum insured for the outbuilding. As it hasn't relied on the other reasons at all, I don't think they're relevant, so I won't consider them. I'll focus on the outbuilding sum insured as that is relevant.
- Red Sands reduced the claim settlement by 50% on the basis it thought Mrs K had underinsured the outbuilding by 50%. In its complaint response, it said it was taking the "industry standard approach of applying average". Our investigator pointed out that Red Sands' policy didn't contain any such clause. Red Sands hasn't challenged this. I've checked the policy and I can't see any such clause either.
- This means Red Sands reduced the claim settlement without having a contractual right to do so. Rather than relying on a policy term, it was relying on the idea that its approach was industry standard and that somehow gave it a right to act as it did. I don't agree that applying average is a standard approach across the industry. And for me to agree it was a fair approach for an insurer to take in a particular case, I would at least expect to see a clearly worded policy term – amongst other things. But even if Red Sands did have such a policy term, I still don't think it would be fair to apply it. I'll explain why.
- Red Sands' reason for reducing the claim settlement is because it says Mrs K is underinsured. That means Red Sands doesn't think she gave the right information about the rebuild cost for her outbuilding when she took out the policy. In these circumstances, I think the fair thing to do is to consider the sales journey at that time. That means thinking about what information she was asked to provide, what she did provide and whether that was reasonable.
- Red Sands says the comparison website didn't ask Mrs K to provide a value for her outbuilding. But once she was transferred through to Red Sands' own website to complete the sales journey, she was invited to provide a value. The website said: *The outbuilding ... would cost (blank space) to replace*. And Mrs K had to enter a value in the blank space. There was no surrounding guidance or information about how to estimate the cost to replace the outbuilding. Mrs K entered £50,000.
- Red Sands says this wasn't a reasonable figure. That's because its loss adjuster said the rebuild cost was just over £100,000. However, this estimate was carried out nearly a year after Mrs K took out the policy, so it's unlikely to reflect the cost at the relevant time. Nor is it clear how this figure has been estimated – no breakdown, calculation or explanation has been provided. Just a number. But even if it was clearly set out and adjusted to the relevant time, I'm not persuaded it would be fair to rely on such a figure. That's because Mrs K wouldn't have been aware of it at the time she took out the policy – and the question didn't require her to take professional advice, such as that as loss adjuster may provide.
- Mrs K bought the property in 2021 and had a pre-purchase survey carried out by a reputable surveying organisation at that time. It estimated the overall rebuild value of the property at £476,000 but didn't break that down between the main house and

outbuilding. A year later, when taking out the policy, Mrs K gave a figure of around 10% for the outbuilding. Red Sands hasn't presented any reason why this was an unreasonable way for her to approach it.

- I bear in mind that the website didn't explain what was to be included within the rebuild cost figure and didn't offer any guidance about how to estimate such a figure. Mrs K had no professional estimate for the outbuilding to rely on and wasn't required to obtain such. She used a professional estimate as a basis for the figure she gave. In these circumstances, I'm not satisfied her answer was unreasonable. So I don't think it would be fair and reasonable for her claim settlement to be reduced. To do so would effectively penalise her, despite her giving reasonable information based on the limitations of the sales process and the information she had available at the time.
- Even if Mrs K's answer were unreasonable, I would then go on to consider what impact that had on Red Sands. So, if she ought to have given a higher figure, what, if anything, would Red Sands have done differently?
- It says that if it had been told by Mrs K the rebuild cost for the outbuilding was £100,000, it would have increased the premium by £0.02, or 2p. That means Mrs K paid over 99.99% of the premium Red Sands says she should have done. In these circumstances, I'm not satisfied it would be fair for Red Sands to reduce the claim settlement at all and certainly not to 50%. Mrs K has effectively paid the premium Red Sands says she ought to have done, *even if* she should have given a higher rebuild cost when taking out the policy – which I don't agree is the case.
- Taking all of this into account, I'm not satisfied Red Sands acted fairly when it reduced the claim settlement. It should now settle the claim without making a reduction for what it perceives to be underinsurance. The policy terms and conditions remain, such as the excess.
- I understand Mrs K has had the work carried out, so the claim will need to be settled by cash payment. This complaint is solely about whether Red Sands could make a percentage reduction of the claim settlement – not what the full claim settlement value should be, so I haven't considered that. Mrs K and Red Sands should explore what the full claim settlement should be.
- I understand Red Sands has already paid Mrs K £15,000. Any amount it pays to settle the claim over and above that should have interest added from the date Mrs K paid for the work to be done as Mrs K has been without that money unfairly.
- As a result of Red Sands unfairly reducing the claim settlement, the claim has taken longer to resolve than it otherwise would have done. That means Mrs K has lived with the damage and has had to deal with the claim and complaint for longer than she ought to have done. As a result, I think she's suffered avoidable distress and inconvenience. I'm satisfied £300 compensation is reasonable in the circumstances.

My final decision

I uphold this complaint.

I require Red Sands Insurance Company (Europe) to:

- Settle the claim without making a deduction for underinsurance, subject to the terms and conditions of the policy.
- Pay interest on the cash payment, over and above £15,000, at 8% simple per year, from the date Mrs K paid for the work to the date of settlement*.
- Pay £300 compensation**.

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

**Red Sands must pay the award within 28 days of the date on which we tell it Mr K and Mrs K 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 K and Mr K to accept or reject my decision before 4 December 2023.

James Neville
Ombudsman