

## **The complaint**

Mr and Mrs H complain that ERGO Versicherung Aktiengesellschaft hasn't accepted their holiday home insurance claim in full due to underinsurance. They also complain about ERGO's handling of their claim.

## **What happened**

Mr and Mrs H hold a holiday home insurance policy which is underwritten by ERGO. They made a claim after a flooding incident following the erosion of a riverbank, which ERGO accepted. Mr and Mrs H complained to ERGO about the time taken to progress the claim. ERGO issued a final response in May 2022.

My ombudsman colleague issued a final decision in February 2023. She considered ERGO's handling of the claim up to May 2022. She concluded that ERGO had caused unreasonable delays and awarded Mr and Mrs H £600 compensation. She also required ERGO to put a plan in place for the next steps of repairs, and regularly update Mr and Mrs H.

However, ERGO said Mr and Mrs H hadn't provided the correct rebuild cost when taking out the policy. ERGO thought this was only 57% of what it should have been, and said it would apply an average to the claim. The repairs were put on hold whilst the matter was addressed. After Mr and Mrs H complained about this decision, ERGO issued a new final response in January 2023.

Our investigator recommended the complaint be upheld. He thought Mr and Mrs H hadn't misled ERGO about the rebuild cost, and recommended that ERGO cover Mr and Mrs H's claim in full without applying an average. He also recommended that ERGO pay Mr and Mrs H £500 compensation for the delays on the claim since May 2022.

Mr and Mrs H accepted our investigator's recommendations, but ERGO did not.

I issued a provisional decision on 13 November 2023, and reached the same outcome as the investigator but for different reasons. Here's what I said:

*'The policy was taken out through a broker, so I haven't considered the sale of the policy. However, ERGO has provided a statement of fact which confirms the questions asked when the policy was taken out, and Mr and Mrs H's answers (or their broker's on their behalf). Although I understand Mr and Mrs H had already obtained the rebuild cost before seeing the statement of fact, I've considered whether the information in this document should have made them aware the rebuild cost they'd obtained may not have been accurate.'*

*The statement of fact says:*

### **'Buildings**

*What is the full cost of rebuilding your property to the present specification (including garages and outbuildings) plus approx. 15% to cover demolition costs and architects and surveyors fees?'*

*The answer given by Mr and Mrs H was £256,000. However, ERGO's surveyors estimated the rebuild cost to be £448,000.*

*I've looked at ERGO's surveyor's breakdown of the £448,000 figure. The basic reinstatement cost of the property, plus the garage and outbuildings, was £284,574. This isn't far off from Mr and Mrs H's estimated rebuild cost. However, ERGO's surveyors then added additional costs for features of the property, the main costs being £51,100 for external walls and £125,000 for revetment to riverbank.*

*Mr and Mrs H have provided some information on how they reached the figure of £256,000. They said they had recently purchased the property for £85,000. They then used a reputable online rebuild cost calculator and were given a valuation of between £225,000 and £392,000. This included their garage and outbuildings (but not the external walls or riverbank wall). Given how much they'd paid for the property, they thought £256,000 would be a reasonable figure.*

*Mr and Mrs H are responsible for the riverbank wall, though I understand the local council has accepted responsibility for the nearby damaged bridge and agreed to contribute towards some of the riverbank wall repairs.*

*I've thought about whether it was reasonable for Mr and Mrs H not to include the external walls and the riverbank wall in the rebuild figure they gave ERGO. Having done so, it seems to me that ERGO didn't give Mr and Mrs H enough information about the information it wanted to know, or how they might obtain that information. I'll explain why.*

*The statement of fact didn't say what was meant by 'property', other than this included garages and outbuildings. I don't think this was enough detail, and it didn't make Mr and Mrs H aware that ERGO wanted to know about any external walls or unusual features. So I don't think it was unreasonable for Mr and Mrs H to think that ERGO just wanted to know about the rebuild cost of the main house plus any garages and outbuildings.*

*The statement of fact also didn't give any explanation of how Mr and Mrs H should go about obtaining the rebuild cost. So I don't think it was unreasonable for Mr and Mrs H to use the online rebuild cost calculator. This wouldn't have been able to give them a figure for the reinstatement cost of the external walls or riverbank wall, but as I've said, they didn't know these needed to be included.*

*I therefore find that Mr and Mrs H acted reasonably by obtaining the rebuild cost of the main property, plus the garage and outbuildings.*

*I note that ERGO's surveyor included other costs in the calculation (such as fencing and drains), and also estimated that the rebuild cost of the property including garage and outbuildings was £284,574. However, this was a detailed valuation by a surveyor which wasn't available to Mr and Mrs H when they took out the policy. It's not reasonable to expect Mr and Mrs H to have carried out a valuation to the same standard as this.*

*I've thought about whether the rebuild figure of £256,000 Mr and Mrs H gave ERGO was reasonable, given they could have chosen between £225,000 and £392,000. They clearly chose the lower end of these figures, but I can understand why they did so, given they had recently purchased the house for £85,000 (and the rebuild cost of the property wouldn't include the value of the land). So that doesn't seem unreasonable to me, and £256,000 was still within the range they'd been given.*

*However, the statement of fact did say to add on 15%, so even if Mr and Mrs H had chosen*

*the lowest figure of £225,000 plus 15%, this would have given a sum insured of £258,750. But this was only £2,750 more than the figure they gave, so I think this would have only made a minimal difference to the premium, if at all.*

*In all the circumstances, I'm satisfied that Mr and Mrs H took reasonable steps when obtaining the rebuild cost and so I intend to require ERGO to deal with the claim in full.*

*Mr and Mrs H have also complained that nothing has happened on the claim since May 2022. I appreciate ERGO didn't want to proceed with the claim whilst the underinsurance matter was in dispute. However, given that I've found Mr and Mrs H acted reasonably here, I agree with our investigator that ERGO should pay them £500 compensation to recognise the inconvenience the delay has had on them.'*

I asked both parties for any further comments they wished to make before I made a final decision.

Mr and Mrs H responded to say they accepted my provisional findings. They also said the council have completed their side of the repairs.

ERGO didn't respond with any further comments by the deadline we gave.

### **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.

As neither party has provided any new submissions for me to consider, I see no reason to depart from the findings I made in my provisional decision. So I've reached the same conclusions, and for the same reasons.

Mr and Mrs H have confirmed that the council have finished their side of the repairs. I understand that the repairs to Mr and Mrs H's side can only take place at a certain time of the year. My ombudsman colleague previously issued a decision requiring ERGO to put a plan in place for the next steps of repairs, and regularly update Mr and Mrs H about this. As the underinsurance aspect has now been resolved and I've found that ERGO should deal with the claim in full, I would expect ERGO to now do this.

### **My final decision**

My final decision is that I uphold this complaint. I require ERGO Versicherung Aktiengesellschaft to deal with the claim in full, and pay Mr and Mrs H £500 compensation\*.

\*ERGO must pay the compensation within 28 days of the date on which we tell it that Mr and Mrs H accept my final decision. If it pays later than this, it must also pay interest on the compensation 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 Mr H and Mrs H to accept or reject my decision before 25 December 2023.

Chantelle Hurn-Ryan  
**Ombudsman**