

The complaint

Mrs J has complained about the amount AA Underwriting Insurance Company Limited has paid in settlement of her buildings claim under her Home Insurance policy. She has also complained about the way AA handled her claim.

Mrs J has a separate complaint about her claim under her other home insurance policy with AA covering the contents of her home.

What happened

The background to this complaint is well known to Mrs J and AA. In this final decision and in my provisional decision, I've focused mainly on giving the reasons for reaching the outcome that I have.

All I will add is that Mrs J recently told me that the repairs to her home were more or less completed by the end of September 2023. And she and her family moved back into their home at this time. And she told me the work was completed by various contractors and cost more than the amount AA paid her in settlement of her buildings claim, which meant she had to use the settlement for her contents claim to cover the extra cost.

I issued a provisional decision on 10 January 2024 in which I set out what I'd provisionally decided and why as follows:

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this case.

Having done so, I think the fair and reasonable outcome is for AA to pay the difference between what it paid Mrs J in full and final settlement of her buildings claim and the revised estimate it received on 22 November 2022, which is in the evidence it submitted to us. However, I have asked our investigator to send a copy to AA with this provisional decision.

- I think it was reasonable for Mrs J to use her own contractor because of the problems she had dealing with AA's claim handling agent. AA has admitted there were problems and that it had to take over the claim itself. This understandably caused Mrs J to lose confidence in AA's agents, which I can understand.*
- This means I think it is fair and reasonable for AA to pay Mrs J a realistic commercial amount which reflects what it should cost her to have the repairs to her home carried out. This should include VAT, as Mrs J had to pay this.*
- I have seen a revised schedule of works drawn up by the company AA used to do this for it, which has been priced and allows for further damage and costs as a result of the property being left exposed to the elements for a period of time after it was damaged. This suggests the industry benchmark for the work required to repair Mrs J's home, including VAT, was £150,472.67. Even this includes some provisional sums and seems to have been done using a database that was slightly out of date. But it does seem fair overall. The amount AA paid in settlement was a lot less than this. But it is not clear why.*

- *This estimate appears to be what AA would have expected Mrs J, at normal commercial rates as a private customer, to pay for the repairs to her home. Therefore, in the absence of any credible explanation as to why it should pay less than this amount in settlement, I have provisionally decided this is what it would be fair and reasonable for AA to pay in total to settle Mrs J's claim.*
- *It also seems that because AA was only willing to pay a much lower amount than Mrs J thought she needed for the repairs to her home, she had to get two schedules drawn up and priced by two surveyors and an electrical inspection report. And I think AA should cover the cost to her of obtaining these estimates and this report.*
- *There were clearly problems with AA's handling of Mrs J's claim. I think its communication and the communication by its agents was poor at the outset. It seems to have realised this and taken over the claim itself. I think if AA had been clearer up front on Mrs J's options she may well have opted not to use a loss assessor at the outset and let AA arrange and pay for the repairs to her home. This would have saved her a great deal of inconvenience and upset. Also, AA's poor communication was clearly very distressing for Mrs J over a long period. And I think this, along with the fact it paid much less in settlement than it should have done, caused Mrs J a very significant amount of distress and inconvenience over a prolonged period. In view of this I have provisionally decided to award a further £1,000 in compensation for distress and inconvenience.*

In summary, I've provisionally decided to uphold Mrs J's complaint and make AA pay the difference between what it has paid and £150,672.67. As Mrs J has now paid for the repairs to her home to be completed and has been without funds she should have had, I also think AA should pay interest on the extra amount due to her at 8% per annum simple from the date it made its final settlement payment to Mrs J to the date of payment. This is to compensate her for being without funds she should have had. I have made it from the date AA paid the final settlement amount as this is the latest date I consider it should have paid the correct amount to Mrs J.

I also intend to make AA pay Mrs J a further £1,000 in compensation for distress and inconvenience.

I also intend to make AA pay for the cost of the two estimates Mrs J had drawn up and the electrical report.

I gave both parties until 24 January 2024 to provide further comments and evidence.

Mrs J has responded and queried whether the amount I've allowed for the works to her home includes VAT. She said that she and her husband spent more than £150,000 to have all the works to their home completed.

AA has responded and asked for reassurance that I've considered that it obtained a price for the works to Mrs J's home from one of its contractors and that this formed its limit of liability. It's added that this contractor was willing and ready to carry out the repairs, but Mrs J rejected this in favour of her husband's firm doing the work.

AA has pointed to the claim settlement term in the policy and suggested it should be able to rely on it to limit the payment to Mrs J to what its contractor would have charged for the work. AA has also pointed out that neither it nor I have received a breakdown of the cost Mrs J incurred to reinstate the property to its pre-loss condition. And it feels that – in light of this – it is unfair for me to make it pay what I've suggested.

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 considered the further comments from both parties, but my view on the fair and reasonable outcome to Mrs J's complaint remains the same as set out in my provisional decision. I'll explain why.

I've noted Mrs J's query regarding VAT. The amount I've said she should receive in settlement of her claim is based on an estimate by AA's surveyor, which includes VAT. Bearing in mind, Mrs J hasn't provided actual invoices for the work carried out to reinstate her home. And in view of the fact the estimate is based on commercial rates, I'm satisfied it is the right amount for AA to pay Mrs J in settlement. Mrs J and her husband may have spent more than this in total, but I consider they could have had all the repairs carried out for £150,672.67 including VAT.

I've also noted AA's comments. And I do appreciate it obtained a price for the works to Mrs J's home from one of its contractors. But I explained in my provisional decision why I didn't think it was fair and reasonable for AA to rely on the claim settlement terms in its policy to limit the payment to Mrs J. This is because the claim was very badly handled from the outset by AA's loss adjuster and this and further handling issues caused Mrs J to lose confidence in AA. I can understand this and its why I think it was fair for her to use her own contractor or contractors to carry out the work to her home without the amount she receives in settlement being limited to what AA's contractor would have charged.

In addition, I note that the estimate from AA's contractor doesn't include VAT, whereas Mrs J will most likely have had to pay VAT to the majority of the contractors she used. Also, AA's contractor only provided an estimate and this means there was no guarantee that it could have actually carried out all the work required for this amount. When I spoke to Mrs J she told me her husband is a painter and decorator and not a general builder. And that, while he did some of the work on their home and helped other contractors with some of it, he did not take on the whole repair job as AA seems to think.

I appreciate Mrs J hasn't provided invoices for most of the work carried out. But she's explained that she used lots of different contractors and bought some of the materials herself. And, bearing in mind the extent of the work required, I accept her testimony that it cost at least £150,672.67 in total including VAT.

In summary, it remains my view that as part of the fair and reasonable outcome to Mrs J's complaint AA should pay her the difference between what it has paid her so far for the repairs to her home and £150,672.67, plus interest. As neither party has provided further comments on the additional amount I suggested in compensation for distress and inconvenience, I see no reason to change my view on this. And, again, as neither party has made further comments in respect of my intention to make AA reimburse Mrs J what she paid for the two estimates she had drawn up and the electrical report, I see no reason to alter my view on this either.

Putting things right

I've decided to uphold Mrs J's complaint and make AA pay the difference between what it has paid and £150,672.67. As Mrs J has now paid for the repairs to her home to be completed and has been without funds she should have had, I also consider AA should pay interest on the extra amount due to her at 8% per annum simple from the date it made its

final settlement payment to Mrs J to the date of payment¹. I have made it from the date AA paid the final settlement amount as this is the latest date I consider it should have paid the correct amount to Mrs J.

AA must also pay Mrs J a further £1,000 in compensation for distress and inconvenience.

AA must also reimburse Mrs J the cost of the two estimates she had drawn up and the cost of the electrical report she obtained. It must also pay interest on the amounts due for these at 8% per annum simple from the date Mrs J paid for them to the date of payment.

My final decision

My final decision is that I uphold Mrs J's complaint about AA Underwriting Insurance Company Limited and order it to do what I've set out above in the 'Putting things right' section.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs J to accept or reject my decision before 22 February 2024.

Robert Short
Ombudsman

¹ AA Underwriting Insurance Company Limited must tell Mrs J if it has made a deduction for income tax. And, if it has, how much it's taken off. It must also provide a tax deduction certificate for Mrs J if asked to do so. This will allow Mrs J to reclaim the tax from His Majesty's Revenue & Customs (HMRC) if appropriate.