

The complaint

Mr and Mrs D complain about the amount offered by Zurich Insurance PLC to settle a claim they made on their contents insurance policy.

What happened

Mr D is the policyholder but his wife Mrs D was able to claim on the policy. She submitted a claim for the value of some handbags that were stolen and Zurich agreed to settle the claim but she wasn't happy with the amount offered.

Mrs D says Zurich should pay her what it would cost to replace the handbags. Zurich says it has offered the value of the bags based on their purchase cost less a deduction based on their age.

As they couldn't agree, Mrs D referred her complaint to this Service. Our investigator initially thought the offer was fair but after considering further evidence from Mrs D she asked Zurich to increase its offer. She said:

- The policy terms say the settlement will be the value of the goods at the time of loss or damage, limited to the replacement value of the goods as new or the insured value, whichever is the lowest.
- The policy documents say the insured value is £7,499. So Zurich should pay that amount, or the amount it would cost to replace the handbags, whichever is lower.
- Zurich should also pay a further £100 compensation for the inconvenience caused to Mrs D.

Mrs D accepted the investigator's view. Zurich didn't agree and indicated it would provide further comments but hasn't done so.

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 D made two claims and complained about the settlements offered for both, together with delays in dealing with the claims. The settlement for one of the claims was agreed but not the amount offered for the stolen handbags. So that's what I need to determine.

Zurich indicated it wished to provide further comments but hasn't replied within the deadlines set and so I'm making my decision on the basis of the evidence that has been provided.

The relevant industry rules and guidance say insurers must deal with claims promptly and fairly; provide reasonable guidance to help a policyholder make a claim and appropriate information on its progress; and not unreasonably reject a claim. They should settle claims promptly once settlement terms are agreed.

The policy provides cover for the loss of the items Mrs D claimed for and says the settlement will be as follows:

“the basis of valuation shall be the actual value of the insured good at the time of loss always limited to the replacement value and/or insured value whichever is the lowest. Insurers will take into consideration the age, quality, wear and tear and consequent market value of any such lost or damaged item.”

Zurich applied a reduction to reflect “general depreciation rules”. These are not set out in the policy terms. It has referred to an endorsement to the policy but that’s dated April 2022 and this claim was made in 2021 so it would not be relevant.

The term itself does say the age and quality of the items will be taken into account, along with any wear and tear. But that contradicts the first part of the term which says settlement is based on the replacement value or amount insured. Where there’s ambiguity, the fair way to approach this is to apply the term in the way that’s favourable to Mrs D.

Although ‘value’ takes into account the value at the time of loss, the settlement is to be based on the replacement value or the value insured. Mrs D has provided evidence of the replacement values. Unless Zurich has evidence showing the items can be replaced for less, Mrs D is entitled to that cost or the amount specified in the policy – £7,499 – whichever is lower. Zurich hasn’t shown that she could replace her handbags for the values it has given so it wouldn’t be fair to settle using those figures.

In its response to Mrs D’s complaint Zurich acknowledged there had been some delays and offered compensation. Our investigator recommended a further payment of £100 for the additional inconvenience caused to Mrs D by the failure to settle this claim. I think that’s fair; Mrs D was put to the trouble of having to pursue this complaint and provide further evidence, which could have been avoided if the claim had been settled in line with the policy terms.

My final decision

I uphold the complaint and direct Zurich Insurance PLC to

- settle the claim by paying the replacement values or £7,499, whichever is lower; and
- pay compensation of £100.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr D and Mrs D to accept or reject my decision before 1 May 2024.

Peter Whiteley
Ombudsman