

The complaint

Mr and Mrs K complain about Zurich Insurance Plc's (Zurich) poor handling of their claim after an escape of water, and delays due to an incorrect assessment of the policy sum insured, under their buildings insurance policy.

What happened

Mr and Mrs K's home was damaged by an escape of water. They contacted Zurich in January 2023 to make a claim, which it accepted. In March they were advised that their policy sum insured may not adequately reflect the full rebuild cost of their property. They say they had to chase to receive a copy of the report from Zurich's desktop assessment. Mr and Mrs K say this was inaccurate and significantly overestimated the re-build cost of their property.

Mr and Mrs K obtained their own report. This provided a much lower figure. They say no repairs took place during this time. This caused delays and likely increased the cost of the claim, which may affect future insurance premiums.

Mr and Mrs K say they had to pay upfront for their alternative accommodation and chase Zurich for reimbursement. They had to change accommodation several times, which caused disruption and distress. During this time their daughter was preparing for exams, their youngest child had to spend a night in hospital, and they suffered a bereavement. All of which added to the distress of the situation. Mr and Mrs K complained to Zurich.

In its final complaint response dated 26 May 2023 Zurich says Mr and Mrs K's claim has been settled without any penalty for underinsurance. It says during the claim it became clear that the information on which its rebuild calculation was based was inaccurate. This resulted in delays in the claim being resolved. It apologised for the inconvenience and offered £250 compensation.

Mr and Mrs K didn't think they'd been treated fairly and referred the matter to our service. Our investigator upheld their complaint. He says they were inconvenienced when having to book short term accommodation on a number of occasions. This was made worse when they were told they may not be insured for the correct amount. Our investigator agreed with Zurich that compensation should be paid. But he says it should pay a total of £650.

Mr and Mrs K didn't agree with our investigator's findings. They asked for an ombudsman to consider the matter.

It has been passed to me to decide.

What I've decided – and why

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Having done so I'm upholding Mr and Mrs K's complaint. Let me explain.

Sum insured

The sum insured is essentially the maximum an insurer will pay in respect of a claim. This value is used as part of the insurer's assessment of the risk involved and impacts on the premium it charges. If the sum insured is too low, so as not to reflect the true cost of rebuilding the property in the event of a total loss, this is known as underinsurance.

Mr and Mrs K's policy terms say the sum insured must represent the full cost of rebuilding their property, including rebuilding expenses. The terms say if the sum insured is not enough then Zurich will proportionally reduce the amount of any claim payment by the percentage of underpayment. It gives the example that if the sum insured is set at 75% of the rebuild cost, then Zurich will pay up to 75% of any claim. I don't think these terms are unusual and they are set out clearly.

I asked Zurich what information it asked for with respect to the sum insured. I can see Mr and Mrs K arranged their insurance through a broker. So, I asked what information Zurich asked the broker to obtain. It didn't provide a response to this query.

Zurich's desktop assessment calculated the rebuild cost for Mr and Mrs K's property at £601,600. However, it was identified that its surveyor based this on inaccurate measurements. Zurich acknowledges this point in its complaint response. This is why it offered £250 compensation. I can see the rebuild costs Mr and Mrs K's surveyor calculated came to £397,955 (including VAT). This followed a site visit and measurements that were taken at the property. Clearly this is significantly lower than Zurich's estimate. But it is still greater than the sum Mr and Mrs K were insured for. Their policy had a sum insured for £325,350. That said Zurich hasn't shown what information it asked for regarding the sum insured. Or shown what instructions were provided for how this should be calculated. In the absence of any information showing Zurich made its requirements clear to Mr and Mrs K, I can't reasonably conclude that they were to blame for the inaccurate sum insured used for their policy.

I think it's reasonable that Zurich wanted to establish whether underinsurance was an issue. As this could impact on the level of its liability when settling Mr and Mrs K's claim. But it took over two months before this became a consideration. By this time work had already been completed in stripping out the damaged areas of Mr and Mrs K's home. If Zurich was going to apply a reduction to what it would pay, because of the underinsurance, it should've confirmed this at an early stage and certainly prior to work starting. In not doing so Mr and Mrs K's position was prejudiced as they weren't given a choice in how to proceed based on a reduced indemnity. I can see from its complaint response that Zurich decided not to apply a penalty for underinsurance. It agreed to reinstate the damage property in full. In these circumstances, given the issues described here, I think this was fair.

I asked Zurich to clarify if work continued as expected, or if work stopped whilst the sum insured issue was resolved. It responded to say that from around the start of March 2023 up until May there was little progress made with respect to the repairs. Based on this evidence I think it's clear that repair work was delayed as a result of the underinsurance matter.

I think it's fair that Zurich compensates Mr and Mrs K for the impact this delay had on them.

Alternative accommodation

Due to the extensive damage caused by the escape of water, Mr and Mrs K and their family required alternative accommodation. Their policy provides cover for this.

The claim records show that Mr and Mrs K highlighted the health concerns suffered by their children. Also, that their daughter was preparing for exams around this time. The notes show short term holiday lets were used to accommodate the family and this involved moving between different properties several times. The notes refer to longer lets only being available on a six- or 12-month lease. This is why the accommodation was limited to holiday lets and other similar properties.

I can only consider issues that formed part of Mr and Mrs K's complaint up to the date of the final response Zurich provided. This was dated 26 May 2023. However, the records show payments for accommodation, paid by Mr and Mrs K, were still being requested in September. This is after the timeframe I'm able to consider in my decision. But it does show that the repairs were ongoing at least nine months after the loss was first reported. I think this shows Zurich could reasonably have considered longer term accommodation at an earlier juncture. This could've gone some way to reduce the disruption, inconvenience and distress experienced by Mr and Mrs K and their family.

I can see from the claim records that Mr and Mrs K contacted Zurich directly and via their broker on a number of occasions. This was to chase reimbursement for accommodation charges they had to pay up front. From what I've read, it took a lot of effort on Mr and Mrs K's part to ensure they had suitable accommodation available.

There's no doubt that a loss like this will result in disruption and upset for those involved. But we expect an insurer to handle all aspects of a claim effectively to avoid delays and poor service making matters worse. Based on what I've read the standard of service could've been better. Had the overall claim handling been more effective the impact on Mr and Mrs K, and their family, would've been lessened. I think it's reasonable that Zurich offered compensation. But I agree with our investigator that a total payment of £650 is fair.

I've also thought about the fee Mr and Mrs K paid their surveyor to calculate the rebuild cost of their property. They arranged this because Zurich's assessment was significantly higher than they thought the rebuild cost would be. As discussed it has since been shown that Zurich used the wrong measurements, and its calculation was inaccurate. I think it's fair that Zurich refunds what Mr and Mrs K paid their surveyor. I can see that following discussion with our investigator it has now made this refund.

Mr and Mrs K have raised concerns that they have and will continue to have difficulties, as well as incurring higher premiums, when insuring their home because of Zurich's actions. I'm sorry for the upset this has caused them, but as our investigator explained this will have to be raised as a separate complaint. I can only consider the issues raised in the original complaint up to the date of the final response.

Having considered all of this I don't think Zurich treated Mr and Mrs K fairly. For the distress and inconvenience this caused them it should pay £650 compensation. They can of course submit a separate complaint for the issues and time periods not considered in my decision here.

My final decision

My final decision is that I uphold this complaint. Zurich Insurance Plc should:

- pay Mr and Mrs K a total of £650 compensation for the distress and inconvenience it caused.

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 9 July 2024.

Mike Waldron
Ombudsman