

## **The complaint**

Mr and Mrs A complain that Chaucer Insurance Company Designated Activity Company ("Chaucer") unfairly declined a claim made for fire damage to their rental property.

Any references to Chaucer in this decision include its appointed agents.

## **What happened**

In November 2022 Mr and Mrs A made a claim for fire damage to a property their own and let. Chaucer accepted the claim under the fire peril, despite the fact that the property was found to have been being used as a cannabis farm.

Mr and Mrs A provided Chaucer with two quotes for repair as Chaucer requested, and Chaucer gave authorisation for the repairs to go ahead. But it didn't reimburse Mr and Mrs A as agreed. It declined the claim in full and said it was relying on the exclusion in the policy which said that fires starting as a result of the property being used to cultivate drugs weren't covered.

Mr and Mrs A complained, saying they'd already incurred costs as the work had commenced, and that there had been delays and poor service in Chaucer's handling of the claim. Chaucer responded to the complaint, upholding the parts about poor service and delays but letting Mr and Mrs A know that they maintained their position in relation to the declination of the claim.

Because Mr and Mrs A didn't agree with Chaucer's response, they referred their complaint to this service. Our Investigator considered it, and recommended it should be upheld. He said Chaucer had prejudiced Mr and Mrs A's position by authorising the work to commence and then declining the claim.

Chaucer didn't respond to our Investigator's view, so the complaint has now come to me to decide.

## **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.

Having done so, I've decided to uphold this complaint. I'll explain why.

I don't dispute that there's an exclusion under the policy, which states under "Illegal Activities" that "Loss or damage caused by or in connection with the property being used by You, Your family, Your Tenant(s) or any other lawful visitor for the conduct or attempted conduct of illegal activity" won't be covered. As the property was damaged by the tenants and the fire started due to faulty wiring set up in the course of their production of cannabis illegally, I'm satisfied that there was a valid exclusion under the policy that applied here. Chaucer was therefore entitled to decline the claim on that basis.

However, in addition to considering the policy terms, I have to consider what's fair and

reasonable in the circumstances. Chaucer asked Mr and Mrs A to obtain estimates, and then to proceed with the work, so I don't think Chaucer's declination of the claim at such a late stage was fair.

From what I've seen, it's clear Mr and Mrs A awaited authorisation by Chaucer before proceeding with work, so they were reliant upon Chaucer's agreement before they spent their own funds on having remedial work carried out. As our Investigator pointed out, Chaucer's erroneous authorisation prejudiced Mr and Mrs A's position and took away other possible courses of action they might've taken if they'd known their claim wouldn't be covered, such as selling the property or delaying the work.

Chaucer initially applied an average settlement for underinsurance – but Mr and Mrs A say this was calculated incorrectly. Having looked carefully at this, I agree that the wrong valuation date was used. And that Chaucer should recalculate the underinsurance using the value at inception of the policy.

I agree with our Investigator that I don't consider Mr and Mrs A's loss of rent claim or contents claims have been prejudiced – because Chaucer didn't give any assurances to Mr and Mrs A, from the information I've seen, about covering those aspects of the claim, and Mr and Mrs A's losses regarding those aspects aren't due to Chaucer's error. So I won't require Chaucer to do anything differently in relation to other parts of the claim.

But I do think Chaucer should pay the cost of reinstatement of the buildings, so I'm going to require it to do that, deducting the relevant amount for underinsurance and the excess, but including interest for the time Mr and Mrs A have been without funds. I'm also going to require Chaucer to reimburse the VAT on the amount payable to Mr and Mrs A for their estimate, as long as Mr and Mrs A can provide a receipt to Chaucer showing that the VAT has been paid.

### **Putting things right**

Chaucer Insurance Company Designated Activity Company must now:

- Pay Mr and Mrs A what they initially agreed to pay towards the estimate, minus the average deduction for underinsurance, backdated to the correct date (policy inception).
- Reimburse VAT on the above, upon receipt of evidence from Mr and Mrs A that this has been paid.
- Pay Mr and Mrs A £406.72 for repairing the locks.
- Deduct the £100 policy excess from any payments made to Mr and Mrs A.
- Add 8% simple interest per annum to the payment amounts from the date Mr and Mrs A paid their invoices to the date of settlement.

### **My final decision**

My final decision is that I uphold this complaint and I direct Chaucer Insurance Company Designated Activity Company to put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A and Mr A to accept or reject my decision before 26 October 2024.

Ifrah Malik  
**Ombudsman**