DRN-4840826

The complaint

Mr S complains about how Royal & Sun Alliance Insurance Limited (RSA) handled a claim under his home insurance policy for damage to his property.

Any reference to RSA in this decision includes their agents.

This complaint is about RSA as the insurer of Mr S's property and their handling of Mr S's claim. It doesn't consider or cover the actions of the letting agent for the property, with whom RSA dealt with during the claim. Reference to the letting agent is included only as context for what happened.

Mr S was supported by a representative in bringing his complaint. References to Mr S include his representative.

What happened

In July 2022 there was an escape of water at Mr S's property, from a broken pipe to a water tank in the loft, causing damage to his ground floor flat and to his tenant's flat on the first floor. Mr S arranged for a plumber to attend and mend the pipe. He also contacted RSA to tell them about the escape and lodge a claim for the damage.

Given the nature of the property being divided into two flats there was some uncertainty on the part of RSA about whether they had been told about the property being divided. RSA didn't record the property being divided and it took some time for their underwriters to agree to cover the claim. In the meantime, work was undertaken by contractors engaged by the letting agent to mitigate further damage.

Once RSA agreed to cover the claim they appointed a restoration and recovery agent (C) to assess the damage and the stripping out and drying required. RSA also appointed a loss adjuster (S) to visit the property and prepare a scope of works to repair the property and reinstate it to its pre-loss condition. RSA also indicated they could offer a cash settlement for the repair work or appoint their own contractors to carry out the work – but the latter would likely mean a three month gap to the work starting.

Given the potential delay, Mr S (through the letting agent) opted to engage contractors to carry out the work. Based on S's scope of works, in September 2022, RSA offered a cash settlement of £13,814.20 (to cover building repairs, damaged electrics, additional damage to ceilings, carpet and the balance of costs incurred by C and the amount outstanding).

Mr S wasn't happy with the settlement as he considered it fell significantly short of the costs incurred from the contractors engaged (£19,986.94), as well as the scope of works not including items he thought should have been covered. RSA maintained their settlement was fair and any incurred costs above this amount they considered unauthorised works and wouldn't reimburse. Mr S should look to recover them from the letting agent, who instructed the contractors to undertake the work.

Mr S then complained to RSA (April 2023). The main elements of complaint were delays in handling his claim; what he considered errors in the approved costs of the claim and a lack of explanation of the costs; incorrect deduction of the policy excess; the performance of C; and poor handling of the claim.

RSA issued a final response in August 2023. They apologised for the delay in responding, exceeding their promised response time. They upheld the complaint in part, acknowledging an initial delay due to referring the claim to underwriters due to being unaware the property had been divided into two flats. But this was outside their control.

On the settlement and deduction of the excess (and whether the settlement included VAT) RSA said they had asked their Personal Claims Specialist (PCS) to re-review the settlement and provide Mr S with a clear and concise breakdown. On the excess, RSA noted the policy schedule stated the excess for an escape of water claim was £350 – but only £250 had been deducted. So, RSA would deduct the difference of £100 from any final claim settlement. On the breakdown of costs, RSA said they had previously provided this.

On the difference between the proposed settlement and the contractor incurred costs, RSA said they offered to appoint their own contractors to carry out the work, but this was declined (by the letting agent) as they wanted to use their own contractors. In these circumstances, RSA would only pay costs based on what they would pay their own contractors, as that was their limit of liability under the policy. But RSA said some items in the settlement had been underpaid (and others overpaid) and they would ask the PCS to review the settlement.

On the issues about C, RSA said this element of the settlement was based on what they'd taken to be the value of work carried out by C. However, these figures subsequently appeared to be incorrect. RSA said their PCS would review the costs and any adjustment included as part of the final settlement figure. RSA also accepted some of the works completed by C weren't of the standard expected which they fed back to C. In addition to the specific actions in their final response, RSA awarded £250 compensation to Mr S.

Mr S then complained to this Service. He was unhappy at what he considered to be a shortfall in the value of the settlement offered by RSA for his claim (£6,422.74) as well as the quality of repair work carried out by C. He thought some work hadn't been carried out and other work being sub-standard. He was also unhappy at the way RSA had handled his claim. This had been stressful for him, given his vulnerability and health conditions. RSA had taken four months to respond to his complaint and hadn't properly investigated matters. He wanted RSA to reimburse the shortfall, which he'd had to cover by borrowing money which he needed to pay back. He also wanted RSA to cover the cost of remediation of C's sub-standard work.

Following Mr S's complaint, RSA re-assessed the information about the claim and made an offer to resolve the complaint. They said there was an error in the stripping out and drying work carried out by C. Correcting the error meant a difference of £1,995.82 owed to Mr S. The investigator thought RSA's calculation of the error and the amount owed to Mr S was correct and concluded the offer was fair. On the other issues raised by Mr S, the investigator thought it reasonable for RSA to have explained the reasons for the initial delay in assessing the claim due to their not being aware the property had previously been divided into two flats. It was also reasonable to adjust for the incorrect excess deduction from the final settlement. The investigator also thought RSA's offer of £250 compensation for delays in responding to Mr S's complaint and their handling of the claim was reasonable.

Mr S didn't agree with the investigator's view. He thought the additional settlement offer from RSA should be uplifted by inflation (8.7%) to reflect the costs he'd incurred. He also challenged the calculation of the additional settlement, saying it was too low and didn't

reflect the cost of remediation work on some of the work carried out by C. Mr S also didn't accept £250 compensation was fair for RSA's handling of the claim, nor the initial delay was due to non-disclosure of the property being divided. Mr S said he would be prepared to accept an additional settlement (being half of the £6,422.74 shortfall he thought due).

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'd first want to recognise what Mr S has told us about his health issues and vulnerability and the impact of what happened in this case. Having an escape of water and the damage caused is inherently stressful, together with having to make a claim and having it assessed. I've borne this in mind when, as is my role here, deciding whether RSA have acted fairly towards Mr S.

There are several issues in Mr S's complaint, the main one being the settlement offer from RSA, which Mr S doesn't believe is fair and leaves him with a shortfall compared to the costs he incurred from the contractors engaged to carry out the work.

Other issues include: the initial delay from RSA considering whether to accept the claim as they said Mr S hadn't told them his property had been divided into two separate flats. Second, issues with the quality of the work carried out by C and what Mr S says are the costs of remediating this work. Third the time taken to assess the claim and how it was handled by RSA.

Taking these issues in chronological order, when the claim was first notified by Mr S, they said they hadn't been made aware the property had been divided into two separate flats, with Mr S in the ground floor flat and a tenant in the first floor flat. Mr S maintains he did tell RSA about this at the time, but RSA's records don't show this. While the original call recordings aren't available, RSA's case notes indicate subsequent calls where the possibility of a tenant moving into the property is discussed – but not that the property was divided into two flats. In the absence of any other clear evidence or information, I can't conclude it was unreasonable for RSA to consider the issue of the property being two separate flats before accepting the claim.

Given the uncertainty about what was known at policy inception (2020) and in recognition of Mr S's health issues and vulnerability, RSA agreed to cover the claim (rather than seek to avoid the policy). Given the circumstances, particularly Mr S's clear health issues and vulnerability, I think was fair and reasonable.

This doesn't indicate – as Mr S contends – the policy was mis-sold to him. The 2021 Renewal Schedule indicates the property is tenanted – but not that it is two separate flats (it simply refers to the property address, not to either or both of the flats). This is consistent with RSA's position they weren't aware the property had been divided, but that it was tenanted. The policy includes an obligation to tell RSA of any change in circumstances, which I think would reasonably include the property being divided into two separate flats. That RSA may not have been made aware isn't something I can hold them responsible for, nor any delay it caused while the issue was considered by RSA's underwriters.

The next issue is RSA offering a cash settlement for the claim. As well as being unhappy with the settlement offered, saying it leaves him significantly out of pocket compared to the costs incurred, Mr S says it's unfair for RSA to base their settlement on the rates they would have obtained had they appointed their own contractors. Looking at what happened, when RSA appointed C and S, they made it clear (to the letting agent) they would offer a cash

settlement based on a scope of works from S (costed at the rates they would pay their contractors) or appoint their contractors. But they make it clear there would likely be a three month lead time for their contractors. They also make it clear they couldn't approve any quotes from contractors engaged by Mr S until C and S had visited the property, assessed the damage and prepared a scope of works.

RSA have provided a copy of the scope of works prepared by S following their inspection of the property, which details the work required in each affected room of the property (both the ground floor and first floor flats). The indications from RSA case notes are that Mr S has also been provided with a copy. The scope was costed at RSA contractor rates and S's report sets out a figure (inclusive of VAT) very close to that included in RSA's subsequent settlement offer (including an element for damaged carpet). It isn't my role to assess a scope of works in detail, but as it is based on S's visit to the property and a room-by-room assessment of the work required, I can't conclude it's unfair or unreasonable.

RSA offering a cash settlement as an alternative to appointing their own contractors is provided for under the terms of the policy, as is the former option being based on the rates they would have obtained from their own contractors. It's also a feature of most home insurance policies. Given the volume of work insurers place through their preferred contractors, they can usually obtain better rates than an individual policyholder is able to. While I understand why Mr S thinks it unfair to use contractor rates (rather than the actual rates/costs from his contractors) I can't conclude it's unfair or outside the policy terms and conditions. While Mr S (the letting agent) is likely to have wanted to engage contractors to carry out the work more quickly, I can't conclude this means RSA should be bound to pay those costs, rather than a cash settlement.

Turning to the issues with the work carried out by C in stripping out and drying the property, I recognise there was uncertainty about exactly what work was carried out and this element of the settlement. In their final response, RSA said this element of the settlement was based on what they'd taken to be the value of work carried out by C. However, these figures appeared to be incorrect. RSA said their PCS would review the costs and any adjustment included as part of the final settlement figure.

RSA have provided a further assessment of these costs, the detail of which was included in our investigator's view of the complaint (so I won't reproduce it in full here). The net impact of the assessment is to increase the settlement offer by £1,995.82. Having reviewed the figures used by RSA in this calculation, including the payment already made and what RSA should have paid for work not completed by C, the net additional figure appears fair.

Mr S also says issues with the quality of C's work led to the need for remediation, which he thinks should be included in any settlement. However, I haven't seen anything to support any such costs, so I can't reasonably ask RSA to reimburse them.

Mr S challenges the figure and that it doesn't allow for inflation from the time he incurred the costs. I've thought about this issue, and while I don't think adjusting the figure for general inflation would be appropriate, in cases where we conclude a settlement (or other payment) should have been greater than that made (or offered) our approach as a Service is to add interest, at a rate of 8% simple, from the date the settlement (payment) should have been made (offered) to the date the additional settlement is paid by the business. As RSA accept there was a mistake in the settlement figure and have offered an additional £1,995.82 then I think they should add interest, at a rate of 8% simple, from the date of their settlement offer to the date they pay the additional sum.

Turning to delays in the assessment of the claim and its handling, as I've noted above there was an initial delay while RSA referred the issue of the division of the property to their

underwriters. As I've concluded this was reasonable in the circumstances, I can't attribute the delay to RSA. Allowing for this, S visited the property at the beginning of August 2022 and RSA made their settlement offer at the beginning of September 2022. Neither is unreasonable in terms of timing. I can see subsequent discussion between RSA and Mr S (the letting agent and Mr S's representative) leading up to his complaint to RSA in April 2023. I accept – as does RSA – there was a delay in their response to Mr S's complaint.

But complaints handling isn't a regulated activity that falls within the scope of this Service unless it affects the substance of the issues of a complaint. In this case, having concluded RSA acted fairly in making a cash settlement offer, in a reasonable timescale, I can't conclude the time taken to respond to Mr S's complaint affected these conclusions. And RSA subsequently re-assessed the element of the settlement attributable to C in their additional settlement offer. Adding interest, as I've concluded appropriate above, would put Mr S in the position he would have been had this additional settlement element been included in, and at the time of, the original settlement offer.

Coming back to the point about Mr S's health issues and vulnerability, I've also noted from the discussions with RSA they variously offered alternative accommodation and then reimbursed hotel costs at relevant points during the assessment of the claim and the repair work. From what I've seen, both were fair and reasonable.

RSA acknowledge some shortcomings in their assessment and handling of the claim, awarding £250 in compensation to Mr S. Together with my conclusions above, I've considered this against the published guidelines from this Service on awards for distress and inconvenience, including Mr S's health issues and vulnerability. Taking all these points into consideration, I've concluded RSA's offer is fair and reasonable.

My final decision

For the reasons set out above it's my final decision to uphold Mr S's complaint in part. I require Royal & Sun Alliance Insurance Limited to:

- Pay Mr S the additional £1,995.82 offered in settlement of his claim (if they haven't already done so).
- Pay interest on the additional sum, at a rate of 8% simple, from the date they made their original settlement offer to the date they make payment (if they haven't already made the additional settlement payment).
- Pay Mr S £250 compensation for distress and inconvenience (if they haven't already paid the sum)..

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 14 August 2024.

Paul King
Ombudsman