DRN-4868434

The complaint

Mr B complains that he was misadvised by LIFT-Financial Ltd when he bought and/or renewed a property owner's insurance policy and this caused him to be underinsured.

What happened

The background to this complaint is well known to both parties, so I'll provide only a brief summary here.

Mr B is a landlord. He has a commercial property investors policy to cover three properties that he owns and lets out. Since 2017, LIFT have arranged that cover. In 2022, the cover was switched a different insurer which was offering a lower premium.

Mr B made a claim in July 2023 after high winds damaged a roof at one of the properties.

The insurer accepted the claim. But having assessed the property, they told Mr B he was underinsured and paid only around 66% of the full claim value in settlement.

Mr B made a separate complaint to us about the insurer. That's been resolved and it's not for me to address it again here, except to say that Mr B has still been paid only around 66% of the full claim value.

Mr B complained to LIFT. He was underinsured because the sum insured (rebuild costs) for the affected property were underestimated in his policy schedule. Mr B said that was LIFT's fault, in effect, and asked them to make good the shortfall on his claim.

LIFT didn't uphold the complaint. They said it was Mr B's responsibility to ensure the sums insured on his policy were adequate. However, they gave Mr B £500 as a gesture of goodwill, given the long-standing relationship they'd had with him.

Mr B wasn't happy with this and brought his complaint to us. Our investigator looked into it and thought it should be upheld. She asked LIFT to pay Mr B the difference between the settlement he'd received from the insurer and the settlement he should have received had he not been underinsured.

LIFT disagreed and asked for a final decision from an ombudsman.

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.

Mr B is a commercial customer. As such, he'd reasonably be expected to know how to find out the rebuild costs for his properties. And it's clear that's what the insurer wanted when they asked for the sums insured for this policy.

With domestic customers, we would expect insurers or brokers to support them when buying a policy by providing advice and guidance about what the sum insured means and about

how to calculate the full rebuild costs for their property.

For commercial customers, the expectation is that as long as it's clear the sum insured is the full rebuild cost, they would know how to provide a reliable and reasonable sum insured / rebuild cost.

So, if LIFT had simply made it clear to Mr B that the sum insured was the full rebuild cost, and that he was responsible for its accuracy or reasonableness, I probably wouldn't uphold this complaint. Even better if LIFT had pointed Mr B in the direction of a recognised on-line rebuild cost calculator and/or advised him to have a valuation survey carried out.

However, in this particular case, it appears to me that LIFT have actively misled Mr B about the calculation of rebuild costs – and therefore given him a false sense of security about the sums insured on his policy. Which means this complaint will be upheld. I'll explain why I've come to that conclusion.

Mr B says LIFT told him that the sum insured for his properties should be calculated as 50-60% of the market value of the property. He says that informed the sum insured he originally declared in 2017. And it gave him assurance, when the policy switched to a new insurer in 2022, that the sum insured (which in effect carried through from the policy with the previous insurer) was more than adequate.

LIFT say that the sum insured for the property at the outset - £90,000 – wasn't in fact 50-60% of the market value. Mr B had a mortgage illustration which showed the property valued at £110,000. Therefore, Mr B can't have calculated the sum insured at 50-60% of the market value.

They say there's no evidence they told Mr B that 50-60% of the market value was a reasonable estimate of the rebuild cost – either before he bought the policy or after that.

And they say it was in fact Mr B's responsibility to estimate the rebuild cost. And that the renewal documents each year said so – and warned of the consequences of underinsurance.

They also say they did what they could to keep the sum insured current by index-linking the original estimate and up-lifting it in line with inflation (in building costs) each year.

I understand what LIFT are saying, but I don't think their arguments stand up in this case.

Index-linking the sum insured (linking to an appropriate measure of inflation in building costs) is a good thing to do. But it will only keep the sum insured adequate if the original sum insured was adequate. Which, in this case, it wasn't. The key question being, as I say above, whose fault was that?

I can see that the renewal documents made it clear that Mr B had to ensure the sums insured were adequate. However, *if* he had in fact been advised by LIFT that rebuild costs were usually at 50-60% of market value (and I'll come to this below), he would have had no reason to query or review his sums insured at renewal. He would have thought he was still fully covered.

In other words, however much he might have taken those warnings seriously and thought he ought to check the sums insured, he would have come back around to LIFT's advice and been given false assurance that his sums insured were adequate.

LIFT say there is no evidence they actually gave that advice (that sums insured should be 50-60% of market value) to Mr B before he bought the policy – or indeed afterwards.

Mr B has sent us extracts from an email sent to him by one of LIFT's agents. Although it's not entirely clear to me when that email was sent, it says:

> *"As a guide for customers, in line with insurers' recommendations we would usually suggest to clients that don't have a rebuild / reinstatement or weren't wanting to pay for a survey / rebuild evaluation that 50-60% off (sic) the market value of the property is normally relatively adequate…"*

That email is advice offered directly to Mr B. As I say, it's not clear when it was sent. If it was before Mr B set his sum insured in 2017 (which I think is unlikely), it's clearly misleading and took Mr B down the wrong path when it came to estimating his sums insured.

Even ff it's after, it does still suggest LIFT are wrong in their assertion that there's no evidence they ever gave that advice to Mr B (before or after inception).

It also clearly suggests that LIFT are *in the habit* of giving this advice to their clients. So, even if there were no absolute proof they'd given that advice directly to Mr B, it does suggest that his recollection he'd been given that advice is very likely to be accurate.

The same line is set out in one of LIFT's responses to Mr B's complaint (dated 15 December 2023), where they say:

> *"As a guide, in line with industry advice, for clients who do not have / wish to conduct a survey / rebuild valuation by a regulated surveyor, we suggest 50-60% of the market value for a standard constructed house to be classed as the 'rebuild value', as it is widely accepted by the industry that the rebuild value is usually lower than the market value of the property…"*

So, whilst we don't have concrete evidence that LIFT gave the relevant advice to Mr B *before* he set his sum insured in 2017, we do have evidence – from LIFT's agents themselves – that they regularly *do* give that advice to their clients, seemingly as a matter of policy.

I'm satisfied therefore that it's overwhelmingly more likely than not that LIFT gave advice to Mr B before inception in 2017 to the effect that it was accepted throughout the industry that sums insured should usually be around 50-60% of market value.

I note that in neither of the articulations of that seemingly standard advice set out above do LIFT say that clients *should* get a valuation survey (or should use an online calculator, for that matter) and take their own risk if they decide not to and go for the 50-60% of market value calculation. They say, in effect, go with the 50-60% if you don't have or want to get a valuation survey.

I note that Mr B's rebuild cost wasn't in fact 50-60% of the market value of the property, as LIFT have pointed out.

Mr B has explained that, even though LIFT's advice indicated the sum insured might actually be too high, he wanted the security of the estimate being (seemingly) over-generous given that at the time his premiums weren't going up as a result.

That explanation is entirely logical and credible – and quite detailed - and I have no reason to disbelieve it.

In summary, I'm satisfied LIFT very likely gave poor advice to Mr B, effectively misleading him about how he should calculate rebuild costs for his properties. And I'm satisfied that poor advice caused Mr B to be underinsured at the time he made his claim in 2023.

For that reason, I'm going to uphold Mr B's complaint and require LIFT to put things right for him (see below).

Putting things right

I understand Mr B has paid the excess on his claim and received the proportional settlement (based on him being underinsured) from the insurer.

For the reasons set out above, I believe LIFT are responsible for Mr B being underinsured. So, I'm going to require them to make up the difference between what the insurer paid him and the sum he would have been paid by the insurer had he been fully and adequately insured.

Mr B has made it clear that's what he wants – and all that he wants – to resolve his complaint. So, I don't need to consider further redress here. And that also means that the £500 LIFT have already paid to Mr B as a gesture of goodwill counts as part of the extra payment LIFT are now to make to Mr B.

My final decision

For the reasons set out above, I uphold Mr B's complaint.

LIFT-Financial Ltd must pay Mr B the difference between the proportional settlement he received from the insurer and the full claim value (less the excess Mr B has already paid) less the £500 they've already paid to him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 8 November 2024.

Neil Marshall
Ombudsman