

The complaint

C, a limited company, complains Covea Insurance plc has only agreed to partially settle a claim against its buildings insurance policy.

C is represented by its director. For ease of reading, I will refer to her actions as C's. Covea is represented. For ease of reading, I will refer to their actions collectively as Covea's.

What happened

I issued a provisional decision. I said:

"What happened

The details of this complaint are well known to both parties, so I won't repeat them here. Instead, I will focus on the reasons for my decision.

What I've provisionally 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.

In 2022 C made a claim against its buildings insurance policy with Covea following damage caused by an escape of water. Covea accepted the claim. But it considered C was underinsured and so only offered a partial settlement of the claim. C doesn't consider this fair and wants Covea to settle the claim in full.

I'm not persuaded Covea has shown there was underinsurance. The buildings sum insured was £150,000 at the time of loss. Covea says it should have been around £233,000. I asked Covea to explain why it considers it can rely on this figure given its own agent calculated the sum insured as just under £120,000 in 2021. I also asked it for some additional information.

Covea hasn't responded to my queries in any meaningful way, despite reasonable deadline extensions. I must therefore proceed with consideration of the complaint on the information available to me. Having done so, as Covea hasn't shown there was underinsurance, my provisional decision is that it should settle C's claim in full, with compensatory interest.

My provisional decision

I intend to uphold this complaint and require Covea Insurance plc to pay C's claim in full and pay C simple interest* at 8% per year on the difference in payments from the date the partial settlement was paid until the date the full settlement is paid."

C accepted my provisional decision. Covea responded to my provisional decision to say it disagreed. It maintained C has been misleading and reckless in respect of how it presented its risk, and it was reasonable to partially settle the claim. Covea has since provided some of the information I asked for.

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.

The Insurance Act (2015) is relevant to this complaint. The Act says a commercial customer (such as C) must make a fair presentation of the risk. Estimating a rebuild cost of a property is a matter of expectation or belief, and such an expectation or belief must be given in good faith.

The buildings sum insured was £150,000 at the time of loss. Covea says, in effect, this sum wasn't a fair presentation of risk because the rebuild cost was significantly more and C would have known this. As a starting point, I must consider whether Covea's contention is correct. I'm not persuaded it is. I'll explain why.

Despite my requests for justification from Covea, and the content of my provisional decision, I'm still not satisfied the rebuild value was more than £150,000. The key evidence available to me is as follows:

- In 2006 C arranged a property valuation for the benefit of her bank. I don't have all the pages for this, but the pages I do have make clear the surveyor concluded the rebuild cost would be £170,000 based on a floor area of 84.6m².
- In 2021 C made a claim, which Covea accepted and settled in full. Covea's agent's in-house surveyor attended and said the sum insured was adequate because the value at risk was calculated as £1,700 per m² against a risk area of 70.5m², which comes to about £120,000. When the agent was contacted following this claim it maintained that the sum insured was accurate.
- In 2022 a different agent of Covea did a calculation. It's unclear if this agent attended the property or involved a surveyor. The basis of the calculation is £1,500 per m² against a risk area of 147m². Combined with additional considerations, the total comes to about £315,000. This agent then reviewed the 2006 valuation and adjusted for inflation, reaching a figure of about £233,000.

While I can understand Covea's attachment to the 2006 survey, that was a long time ago and without all the pages, it's not possible to review the considerations/methodology. Prior to this policy renewal – i.e. this contract of insurance – Covea's own agent did a calculation on a similar floor area as that of the 2006 surveyor, and stands by its decision. The most recent calculation is based on a much higher floor area and is a clear outlier. I'm more persuaded by the figure reached in 2021 than in 2022.

In my view, Covea hasn't shown the risk presented by C – a declared value of £150,000 – was an unfair one, as I'm satisfied, based on the evidence and arguments presented to me, that the rebuild value was below this, even if the 2021 calculation was based on the 2006 floor area of 84.2m². But if in any case, it's unclear to me how C can fairly be said to have acted in bad faith given the rebuild value wasn't questioned in 2021 and after it being highlighted as an issue more recently, Covea hasn't been able to adequately show it was an unfair expectation or belief.

My final decision

I uphold this complaint and require Covea Insurance plc to pay C's claim in full and pay C simple interest* at 8% per year on the difference in payments from the date the partial settlement was paid until the date the full settlement is paid.

*If Covea Insurance plc considers that it's required by HM Revenue & Customs to deduct tax from that interest, it should tell C how much it's taken off. It should also give C a tax deduction certificate if asked for one, so it can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask C to accept or reject my decision before 25 July 2024.

James Langford
Ombudsman