

## **The complaint**

Mr and Mrs W complain about the way AA Underwriting Insurance Company Limited (AA) handled and settled an escape of water claim under their buildings insurance policy.

## **What happened**

The background to this complaint is known to all parties so I won't repeat it again here in detail. But, in summary, Mr and Mrs W own a property and held home insurance cover which was underwritten by AA.

Around May 2021, Mr W notified AA water was entering the property. A claim wasn't accepted by AA at that point, and in essence, Mr and Mrs W say they were told to locate the source of the water which they attempted to do over several months by stripping out parts of the building, digging holes, and instructing contractors – amongst other things.

Throughout August and September 2022, Mr W told AA the water getting in was the result of a problem with the neighbouring drains, and an external wall. Mr and Mrs W then complained to AA about the lack of progress while they, and their family, were living in a damp and deteriorating property. And they shared with AA some information from a doctor outlining the impact the claim was having on their health and wellbeing. AA responded to the complaint in November 2022.

Mr and Mrs W raised a further complaint to AA which is the complaint I'm considering in this decision, as our Service considered a previous complaint under a separate reference.

The crux of their complaint is, broadly, that AA failed to reimburse costs for trace and access because it found these works to be excessive. Other costs such as electricity usage, and the removal of a sofa weren't paid, and alternative accommodation costs were late. And the cash settlement offered by AA to settle the resulting claim-related damage was far too low.

They also said communication was poor throughout. And the claim was halted due to a lack of management, understanding, and ownership – their claim continued to be reverted to weekly management meetings, and responses were ineffective.

AA responded to the complaint in July 2023. It offered to reassess some costs, pay Mr and Mrs W £500 compensation, and later offered a further £100 due to late payments. But it maintained its cash settlement offer of £3,974.62 to settle the buildings claim was fair. It said this was a contribution towards repairs due to the poor underlying state of repairs at the property – that was going through renovations at the time the loss occurred.

Mr and Mrs W didn't accept this, nor did they accept their property was in a poor state. They accept it was an old building, but not in poor condition. And in any case, given damage had occurred for many months to an uninhabitable property, damage had gotten worse overtime. As they remained unhappy, they asked our Service for an impartial review.

The Investigator thought the complaint should be upheld and recommended AA did the following to put matters right:

1. Appoint a loss adjuster *and* independent surveyor to assess the claim-related damage, provide a new scope of works, and settle the claim based on this.
2. Cover alternative accommodation costs until a settlement is agreed.
3. Reimburse the costs Mr and Mrs W incurred for trace and access, additional electricity usage, removing a sofa, and include interest: and
4. Pay them a further £350 compensation.

Mr and Mrs W agreed. AA agreed to points two – four, but it didn't accept point one due to the condition of the property. The Investigator considered AA's reasons for this, but felt his recommendations were still fair and reasonable.

Mr and Mrs W also appointed a loss assessor to represent their interests in the claim. They provided a revised scope of works which covered drying, and repairs, and totalled roughly £112,000. The Investigator shared this with AA, but it didn't offer to take further action.

I issued a provisional decision on 30 July 2024 which set out the following:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I acknowledge I've summarised Mr and Mrs W's complaint in less detail than they have presented it. I recognise the past few years have been a very difficult time for them, and I appreciate they are eager for the claim to progress now given they've been out of their home for a significant period – with no end in sight. And the claim has caused them much distress, disruption, and impacted their health and wellbeing.

I haven't addressed each point they've raised individually. Instead, I've focused on the key points I think I need to think about. I don't mean any discourtesy by this; it simply reflects the informal nature of our Service. I assure them (and AA) I've read and understood everything that's been provided.

#### *The outstanding claim*

The claim is complex in nature, and I find AA let Mr and Mrs W down here at times. Water was entering their property in May 2021 and, despite having trace and access cover, Mr and Mrs W were, in essence, left to find the source of the water without any guidance or support. This was a complex process that involved input from various contractors over several months, part of the building needed to be removed, and drains at a neighbouring property to be assessed and repaired.

So, it follows I don't find AA's conclusion that Mr and Mrs W's efforts when tracing and accessing the source of the water were excessive to be a reasonable one. Rather, I find they took reasonable steps to do their best to engage with third parties and try to find answers to a problem that was impacting their property, and, in turn, their health. The evidence available suggests damage has continued to occur due to the claim, and due to delays to progressing matters to a resolution.

Mr and Mrs W and AA accept, largely, the outcome recommended by the Investigator. But the point that remains disputed (by AA) is whether AA settled the claim fairly, or whether it should now appoint an independent surveyor to visit the property, assess the damage, and provide a new scope of works based on the claim-related damage – that AA should use to settle this claim.

Having carefully reviewed this, I intend to direct AA to appoint an independent surveyor. That's because I don't find it settled this claim fairly and reasonably for the

following key reasons.

AA has said its cash settlement amount was a contribution towards reinstatement works due to the poor underlying state of repairs at the property. But I don't find the evidence available supports the property was in poor condition. I've also considered the various reports available here, and I've noted some key points:

- A report was carried out on 22 August 2022. This suggested the property was found to be in a fair state of repair overall, and there were no pre-existing or ongoing internal building defects / issues that weren't claim-related.
- A report was carried out on 4 October 2022 which points out the claim involved major damage (contaminated water). The surveyor said: "*I carried on with my assessment checking all the lower rooms and found signs of excess moisture in all rooms and knowing that **this has been ongoing for 18 months I can confidently say that all lower rooms have been affected** [in bold for emphasis by Ombudsman]. I would recommend strip out and drying...*". Further, they went on to say: "*Also due to the conditions I would recommend Alternative Accommodation for the policyholder and family*". This suggests all lower rooms were impacted by the claim, and conditions were uninhabitable.

A further report was completed by a firm I'll refer to as "E" in February 2023, which set out the following points:

- E was appointed by AA to inspect the damage and provide recommendations. The leaking drains at the neighbouring property had been repaired; only remedial works were outstanding, and E was largely satisfied it was safe for works to start which – based on E's experience – required additional precautions.
- And while there was evidence of renovation works and damage to the lounge ceiling due to an unrelated matter, E said there was no reason to believe there were any outstanding issues beyond what E would expect within a property of its age.

I find this second point supports Mr and Mrs W's comments – that while the building is old and requires general maintenance as expected, it was unreasonable to consider it being in a poor underlying state of repair.

Therefore, I'm not satisfied based on the evidence available it was fair and reasonable for AA to contribute towards the claim-related damage. The evidence suggests there has been an ongoing escape of water issue at the property since May 2021. And I've also kept in mind that claim-related damage resulted in the alternative accommodation section of the policy responding to this claim – meaning AA considered the property to be unable to be lived in.

I note AA has said Mr and Mrs W (nor their loss assessor) disputed the details of the level of works required to reinstate the property back to its pre-loss condition. But I don't find that's accurate here – Mr and Mrs W made clear they disputed the level of works given by AA, the areas of damage, and their loss assessor has since provided a revised scope of works which totals roughly £112,000.

So, that means there is a significant difference between the amount all parties think is required to effect a lasting and effective repair to the claim-related damage – which

is what the contract of insurance ultimately required AA to do. Therefore, I find a fair and reasonable way to progress this longstanding claim to a settlement is for AA to do the following:

- AA must appoint a loss adjuster to oversee the claim *and* appoint an independent surveyor that is independent to all parties – for fairness and objectivity.
- The independent surveyor will be responsible for assessing what works are outstanding that are claim-related. And to be clear, this means any repairs required as a result of the claim in question. AA are only responsible for paying for these repairs.
- All parties must engage with the independent surveyor promptly. And once the claim-related repairs have been established, AA must settle this claim based on the independent surveyor's scope of works, in line with the policy terms.

I'm aware of the breakdown in relationship between Mr and Mrs W and AA. But I don't find it would be so unreasonable for AA to opt to appoint its own contractors from its network to undertake the required claim-related repairs. That's because this might support a smoother, more efficient, claim journey through to settlement which is in the interest of all parties.

If, however, a cash settlement is agreed by all parties as the appropriate method to settle this claim, I think it's important I draw their attention to the ABI's published guidance on best practice regarding cash settlements:

Best Practice: Offering cash settlements to customers after a flood | ABI

While this published guidance refers to flood claims, I think the broader principles are relevant here.

*Alternative accommodation*

I'm aware my intended direction on what should happen next with the claim doesn't resolve Mr and Mrs W's alternative accommodation concerns. As I understand it, the property remains uninhabitable and will remain that way during the process I've set out above, until the claim-related repairs have been completed to the standard that renders the property habitable for Mr and Mrs W, and their family.

The policy says if a property cannot be lived in, then AA will cover the costs it has agreed in advance for alternative accommodation. And the policy schedule says the alternative accommodation limit is £45,000. AA said in May 2024 that the amount paid in alternative accommodation so far was nearing the limit.

AA also agreed, however, to cover alternative accommodation beyond 1 October 2023, until a settlement had been agreed, following the Investigator's view. But I intend to require AA to cover Mr and Mrs W's alternative accommodation costs while the works to put right the claim-related damage is undertaken until the property is deemed *habitable*. I find that's both fair and reasonable in this specific case because I'm not satisfied Mr and Mrs W have been in alternative accommodation for an extended period as a result of delays they've caused, or because they refused to accept a fair and reasonable offer from AA to settle their claim in full.

### *Customer service*

I find this claim was handled poorly overall as there were several failings here. I think AA ought to have handled matters much better – and with a more appropriate level of customer service. I say this because I think the claim lacked oversight, management, and ownership, which is why I think, as least in part, the claim remains outstanding to date and became more complex.

I've seen Mr and Mrs W made every effort to get matters progressing having managed to overcome a very difficult hurdle they faced with attempting to locate the source of the water problem – without any guidance or support. They chased for updates and for things to happen, and they were met with responses which, at times, were ineffective, and were told frequently by AA their query would need to be reverted to weekly management meetings. I find this aspect demonstrates the lack of ownership here and appropriate management of this claim. Further, there appears to have been confusion over the status of the claim at times, and what needed to happen next.

There were also issues such as late alternative accommodation payments despite Mr and Mrs W's reasonable request for payments to be made on time. This was to avoid further, unnecessary problems while in the midst of all the other challenges they were facing with this claim.

Mr and Mrs W also described the impact this claim has had on them and their family. They provided some information from their doctor which explained the impact the claim was having on their health and wellbeing. I won't set out the contents of that information in detail because all parties have seen it, but I acknowledge the substantial distress, disruption, and overall impact this claim has had on them and their family – while being out of their home for a considerable period.

In concluding, while I note all parties accepted the Investigator's recommendation for AA to pay Mr and Mrs W a further £350 compensation, I currently don't find this amount goes far enough to recognise the impact AA's service failings had on Mr and Mrs W.

I've reviewed our published guidance on awards for distress and inconvenience which, for ease, can be found here: [Compensation for distress and inconvenience – Financial Ombudsman service \(financial-ombudsman.org.uk\)](https://www.financial-ombudsman.org.uk/compensation-for-distress-and-inconvenience)

And, having done so, it follows that I find AA's service failings caused Mr and Mrs W substantial distress, upset, and disruption over a sustained period of many months. So, I currently intend to increase the compensation award and require AA to pay Mr and Mrs W a total amount of £1,500 to settle this complaint.

### *Putting things right*

For the reasons I've set out above, I intend to require AA to do the following to settle this complaint:

- AA must appoint a loss adjuster to oversee this claim through to settlement. And it must also promptly appoint an independent surveyor (someone independent to all parties).

- Once appointed, the independent surveyor must promptly assess the damage and determine what damage is claim-related damage. They must then produce a new scope of works detailing the claim-related damage, and AA must then settle this claim based on this, in line with the remaining policy terms.
- I don't find it would be unreasonable for AA to appoint its own network of contractors to complete the claim-related repairs – subject to all party's acceptance – in an effort to progress the claim promptly to settlement and bring the property back to a habitable condition.
- AA should cover Mr and Mrs W's alternative accommodation costs while works to put right the claim-related damage is undertaken, until the property is deemed habitable.
- AA must reimburse the costs associated with trace and access, additional electricity usage, a sofa removal, and include interest (in line with the Investigator's recommendations that both parties have accepted): and
- Pay Mr and Mrs W £1,500 compensation in total (deducting any amounts already paid as part of this complaint) to recognise the substantial distress and inconvenience caused.

### **My provisional decision**

I currently intend to uphold this complaint and require AA Underwriting Insurance Company Limited to settle this complaint in line with my instructions above.”

### **Responses to my provisional decision**

Mr and Mrs W accepted my provisional decision. AA provided a detailed response outlining its rejection of my provisional decision, which I've reviewed. I'll now go on to set out my final decision on the matter.

### **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've reviewed AA's detailed response to my provisional decision, but I'm not persuaded to change my opinion on what I consider to be a fair and reasonable resolution to this complaint. I say this for the following key reasons, and in addition to what I set out on 30 July 2024.

AA has said damage to the buildings in 2021 was nominal, and excessive trace and access works undertaken by Mr W when digging holes and removing flooring caused further damage. But I set out previously why I wasn't persuaded to agree the enquiries and works undertaken by Mr W were so unreasonable that they amounted to being excessive. Rather, I think Mr W took reasonable steps to locate the source of ongoing problems that involved water entering his property, damage, and impact on his family's health. This was a complex issue (as accepted by AA in its claim notes and submissions to our Service) which required input from several professional parties.

Further, AA has said that Mr W's efforts when digging and removing flooring would have served no benefit to the claim. But I don't find its opinion on the same is supported by the comments from the surveyor's report dated 4 October 2022. The surveyor within this report

provided details regarding a “Strip out brief”, and said the lounge required the removal of contents, and the remaining floorboards also needed to be removed.

And in any case, AA agreed to cover trace and access costs Mr W incurred during this claim. In its response to the Investigator’s view, it said: *“There is undoubtedly T&A cover on the policy and equally no doubt from my inspection of the property that work was undertaken and costs incurred by the policyholder to trace the source of what was established as water ingress which at some point was exacerbated by failed drainage pipes within the next door neighbours garden (which have since been repaired). I feel that we will need to accept the costs submitted by the policyholder under the T&A cover up to the policy limit”*. As I understand it, the costs incurred by Mr W for trace and access were well within the limits regarding the same.

After lengthy delays and some confusion over what was required to progress matters, a cash settlement was offered to Mr and Mrs W in error. As I understand it, this was provided to them by AA without it being reviewed by its management team. AA then offered Mr and Mrs W £3,974.62 in full and final settlement of this claim. It said this was a contribution towards repairing claim-related damage due to the poor underlying state of repairs at the property, that was undergoing renovations. Neither party disputed renovations were ongoing, or that the building was an old building.

AA has said this amount was based on a report dated February 2023 by a firm I’ll again refer to as “E”. I set out within my provisional decision the comments from E within its report regarding the condition of the property. E said while there was evidence of renovation works and previous damage in the lounge, E said there was no reason to believe there were any outstanding issues beyond what E would expect within a property of its age.

Importantly, the visit by E was completed several months after a previous visit from a surveyor. Their report was dated 4 October 2022. As mentioned previously, this report set out that the claim involved major damage (contaminated water). The surveyor concluded, broadly, that there was moisture in all rooms, and knowing this had been ongoing for 18 months, they could confidently say all the lower rooms of Mr and Mrs W’s property were affected. It’s not entirely clear why E didn’t provide any comments or observations on this report, or to other rooms within their report carried out several months later – which AA, in turn, relied on to settle this claim.

In any case, Mr and Mrs W argued the cash settlement was too low, their property was old and required some maintenance, but it wasn’t in poor condition. And AA’s cash settlement wasn’t fair and reasonable on the basis the amount wouldn’t provide lasting and effective repairs to the claim-related damage. I’m persuaded their concerns were fair, reasonable, and plausible here, given the reasons I’ve set out above. So, it follows that I’ll be directing AA to settle this complaint in line with the instructions I set out within my provisional decision.

I also don’t find it’s unreasonable to require AA to cover Mr and Mrs W’s alternative accommodation costs in line with what I set out previously. While I do recognise coverage in this respect has been ongoing during the claim and subsequent complaint, I don’t find it’s unreasonable to conclude the requirement for alternative accommodation isn’t the result of delays caused by Mr and Mrs W, or due to their refusal to accept a fair and reasonable settlement to this claim. I’ve also kept in mind here the specific circumstances of this case, the impact on Mr and Mrs W’s (and their family’s) health and wellbeing, and ultimately what I consider to be fair and reasonable in all the circumstances of this complaint.

### **Putting things right**

For the reasons I’ve given above, I’ve decided that AA Underwriting Insurance Company

Limited must now do the following to settle this complaint:

- AA must appoint a loss adjuster to oversee this claim through to settlement. And it must promptly appoint an independent surveyor – independent to all parties.
- The independent surveyor must promptly assess the damage and determine what damage is claim-related damage. They must then produce a new scope of works detailing the claim-related damage, and AA must then settle this claim based on this, in line with the remaining policy terms.
- I don't find it would be unreasonable for AA to appoint its own network of contractors to complete the claim-related repairs – subject to the agreement by both parties – in an effort to progress the claim promptly to settlement.
- AA must cover Mr and Mrs W's alternative accommodation costs while works to put right the claim-related damage is undertaken, until the property is deemed habitable.
- AA must reimburse the associated trace and access costs, additional electricity usage, a sofa removal, and include simple interest\* at 8% a year (in line with the Investigator's recommendations both parties accepted): and
- Pay Mr and Mrs W £1,500 compensation in total (deducting any amounts already paid to them as part of this complaint) to recognise the distress and inconvenience caused.

### **My final decision**

For the reasons I've given above, I've decided to uphold this complaint. I now require AA Underwriting Insurance Company Limited to settle this complaint in line with my instructions above.

\*If AA Underwriting Insurance Company Limited considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr and Mrs W how much it's taken off. It should also give Mr and Mrs W a tax deduction certificate if they ask for one, so they can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Mrs W to accept or reject my decision before 16 September 2024.

Liam Hickey  
**Ombudsman**