

The complaint

M, a limited company complains Allianz Insurance Plc didn't identify an error in the information it was presented with when agreeing cover for M's business protection insurance policy.

What happened

In October 2020 M took out insurance with Allianz through a broker. The policy was renewed on the same basis by Allianz. In July 2022 there was a fire at M's business premises and it claimed on its policy. Allianz said the sum insured for gross profit was inadequate. It reduced the claim in proportion to the level of underinsurance. M said Allianz should have identified the gross profit figure was incorrect when considering its application for cover. If it had done so that would have prevented the underinsurance. It also raised concerns about the actions of its broker which we've considered as part of a separate complaint against that business.

In relation to the complaint against Allianz our investigator didn't think it was reasonable to expect Allianz to have questioned the information it was provided with. She thought it was reasonable of it to rely on the information M had provided through its broker when deciding whether to agree cover for M.

M didn't agree. It said Allianz had specifically requested the completion of a form which said M's gross profit (the sum insured for business interruption insurance) was £78,000. However, on the same form it had declared salary costs of £200,000.

M argued this showed an obvious error had been made in relation to the figure for gross profit as it wouldn't be possible to pay those salary costs from that amount. And that should have prompted Allianz to make further inquiries which would have identified the underinsurance and meant this would have been corrected prior to the loss taking place. It queried what the point of completing the form had been if this wasn't going to be reviewed by Allianz prior to cover being agreed.

So I need to reach a final decision.

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 underinsurance has arisen because the sum insured that was provided when the policy was first taken out in 2020 was inadequate and that wasn't corrected at renewal prior to the loss taking place. From what M has said it appears to accept that was because it provided figures for net profit rather than gross profit. And as this is a commercial policy the relevant law is the Insurance Act 2015. The Act requires a commercial customer to make a 'fair presentation of the risk'. That includes the policyholder ensuring that *"every material representation as to a matter of fact is substantially correct and every material representation as to expectation or belief is made in good faith"*.

I can see the inquiry form (which I understand Allianz was responsible for producing) has a section for business interruption insurance which says "*Gross Profit sum insured*". M recorded a figure of £78,000 in that section. I understand that figure was incorrect as it appears to have related to net profit rather than gross profit. But I think it's clear from the question that Allianz wanted to know about gross profit.

And I think it's relevant in this case that the policy was taken out and renewed through an independent broker. I can see Allianz's website contains a section for intermediaries which contains guidance on how to calculate gross profit in line with the definition set out in the policy terms. So I think it was for the broker to gather the relevant information Allianz needed by asking relevant questions and providing appropriate support and guidance to the policyholder. I've set out in a separate decision my thinking on how the broker carried out those responsibilities in this case.

Allianz would then need to review the material that was provided. But its focus on doing so would be on assessing whether this risk was one it wanted to accept and, if so, what premium should be charged for it. I don't think it would have been reasonable to expect it to investigate whether the figure it had been provided with for gross profit was accurate. I think Allianz was entitled to rely on the information M provided through its broker in response to the questions it asked.

My final decision

I've decided not to uphold this complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 24 December 2024.

James Park
Ombudsman