

The complaint

Mr and Mrs B complained about the length of time it took Lloyds Bank General Insurance Limited ("Lloyds") to review and validate their claim, before voiding their policy for misrepresentation. Mr and Mrs B felt the service they received was poor. Lloyds were the underwriter / insurer for the property element of the home insurance policy.

What happened

Mr and Mrs B made a claim to Lloyds following a flood. It was their third flood they'd experienced in the last two years.

Lloyds sent a loss adjuster to review and validate the damage. After a period of five weeks, Lloyds declined the claim as it decided to void the policy from its renewal date. Lloyds discovered that during part of the period of insurance, Mr and Mrs B had been running two separate small businesses from the property as a trial. Lloyds said if it had known about these businesses, it wouldn't have offered cover.

Mr and Mrs B recognised their error in not informing Lloyds about the change in their personal circumstances. They said the businesses had been closed prior to the flood they claimed for. They said the businesses didn't add risk to their property insurance, as the businesses didn't interact with the property. Mr and Mrs B said their contents insurer covered their claim, so couldn't understand why Lloyds had taken a different viewpoint.

Mr and Mrs B were unhappy with the time it took for Lloyds to inform them of its decision, which they said led to unnecessary distress not knowing whether they were covered. Mr and Mrs B found the communications confusing, as some letters were issued by their broker and some by their insurer. They thought some of Lloyds' dealings with them were unprofessional.

Lloyds apologised for the delays and paid Mr and Mrs B £150 compensation. Although, Mr B was unhappy this was deposited into the incorrect account.

Our investigator decided not to uphold the complaint. He thought the compensation paid by Lloyds was fair and he'd asked Lloyds to re-pay this into the correct account. However, he didn't see any evidence to support the other part of Mr and Mrs B's complaint. Mr and Mrs B disagreed, so the case has been referred to 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.

Lloyds voided the policy due to a misrepresentation, so I have considered the merits of this complaint from this perspective.

The relevant law in this case is The Consumer Insurance (Disclosure and Misrepresentation) Act 2012 (CIDRA). This requires consumers to take reasonable care not to make a misrepresentation when taking out a consumer insurance contract (a policy). The standard of care is that of a reasonable consumer.

And if a consumer fails to do this, the insurer has certain remedies provided the misrepresentation is - what CIDRA describes as - a qualifying misrepresentation. For it to be a qualifying misrepresentation the insurer must show it would've offered the policy on different terms or not at all if the consumer hadn't made the misrepresentation.

CIDRA sets out several considerations for deciding whether the consumer failed to take reasonable care. And the remedy available to the insurer under CIDRA depends on whether the qualifying misrepresentation was deliberate or reckless, or careless.

So, I've considered Mr and Mrs B's circumstances in respect to CIDRA.

Was there a misrepresentation?

I think Lloyds has been fair in saying there was a misrepresentation. Mr and Mrs B have acknowledged their error in declaring their business interests when they renewed the policy at the start of the year.

Did the consumer take reasonable care?

I don't think Mr and Mrs B did show reasonable care. Lloyds shared information with Mr and Mrs B when they renewed, and it asked them to check the information that Mr and Mrs B had previously provided was still up to date. The documentation was clear this was an important task to complete. But, either Mr and Mrs B forgot to check the information, or chose not to follow this guidance.

Did it make a difference to Lloyds?

Lloyds has argued the misrepresentation was a qualifying one. Lloyds said it wouldn't have offered cover if it had known Mr and Mrs B has business activities on their property.

Lloyds has shared its underwriting criteria. It confirms that Lloyds doesn't provide cover on property which includes business activities. Therefore, I think the misrepresentation was qualifying, as Lloyds wouldn't have offered cover if it had known the true circumstances.

Was the misrepresentation deliberate or reckless, or careless?

Lloyds has assumed the misrepresentation was careless, rather than deliberate or reckless. I think this was fair, so, I've considered whether Lloyds applied the correct remedy under CIDRA.

What remedy is available to Lloyds given there has been a claim?

As the qualifying misrepresentation was careless, and Lloyds said it wouldn't have offered cover, it is entitled under CIDRA to void the policy and refuse all claims, but it must return the premiums. As Lloyds has done this, I think it has acted reasonably in the circumstances of this claim.

I appreciate Mr and Mrs B has said its contents insurer dealt with the situation differently. It's also said the businesses were closed by the time of the flood and weren't impacting on the property when they had been operating. However, in making my decision, I need to follow the guidelines set out in CIDRA. As Lloyds has followed these principles, I think it has acted reasonably. So, I don't uphold this aspect of the complaint.

Mr and Mrs B were disappointed that it took Lloyds five weeks to inform them of its decision to void the policy. Lloyds have apologised and paid £150 compensation for this delay. Mr and Mrs B said not been insured for this additional period could've exposed them to further losses.

I haven't seen any evidence that further losses did materialise due to this delay. Our service only looks to put right actual financial losses, so I can't ask Lloyds to pay for a loss that hasn't happened. I would've expected Lloyds to have informed Mr and Mrs B within a couple of weeks of the claim of its decision to void the policy. This would've given it time to review and validate the claim. I think the additional few weeks would've caused some distress for Mr and Mrs B, but I think the £150 payment made by Lloyds is reasonable in these circumstances.

Mr B is unhappy the compensation was paid into his wife's bank account, rather than his own account. Mr B had paid the premiums from his own bank account, and it was the nominated account on the policy. Mr B expected the compensation to be paid into his own bank account

I've asked Lloyds about this. Lloyds said its claim handler didn't have access to the nominated bank details on the account, as these were held by the broker. Lloyds didn't want to delay the compensation being paid, so used records within the Lloyds Group to find the bank details of either Mr B or Mrs B. Having found the details of Mrs B, Lloyds paid the compensation into her account.

I don't think Lloyds has done anything wrong here, the payment wasn't a refund on the premiums, it was a compensation payment to both Mr and Mrs B as joint policyholders. I don't think it has misused information to make the payment, the information was used for a specific purpose, which I think it did with good intentions of speeding the payment up. I haven't seen any evidence this has had an unfair or detrimental impact on Mr and Mrs B.

I have no doubt that if Mrs B paid back this money to Lloyds or half this money, then Lloyds would have no problem in paying Mr B half the amount he was expecting.

I can understand how Mr and Mrs B were confused by the different communications it received from parties involved in the claim. I appreciate this can be hard to follow. I can see Lloyds has provided its explanation of how the industry works, with policies often branded differently to the actual name of the insurer who underwrites the policy.

I don't think it is easy to understand how the parties interact in the industry. Especially for people who have little day to day interaction. But, I can't say Lloyds has acted unreasonably here. It has tried to explain to Mr and Mrs B why they received communications from different parties. Whilst it's always possible to improve communications, I don't think Lloyds has provided anything that's misleading or incorrect to Mr and Mrs B. So, I don't uphold this aspect of the complaint.

Mr and Mrs B has said it thinks their broker should've been involved in this investigation. This complaint is about the decision to void the policy and the delay in sharing that decision. Mr and Mrs B's broker weren't responsible for what happened. These actions were carried out by Lloyds or by its representatives acting on behalf of Lloyds. Therefore, Lloyds are the party who are answerable to this complaint as it has overall responsibility here.

My final decision

My final decision is that I don't uphold this complaint. I don't require Lloyds Bank General Insurance Limited to do anymore.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Mrs B to accept or reject my decision before 21 February 2025.

Pete Averill
Ombudsman