

The complaint

Ms T complains about the amount Liverpool Victoria Insurance Company Limited (“LV”) offered to settle a claim she made under her home insurance policy.

What happened

The circumstances aren’t in dispute, so I’ll summarise the background:

- Ms T got in touch with LV in March 2023 about a problem with the drainage system at her property. LV appointed a drainage company, A, to look into the problem.
- A surveyed the drainage and found fractures in the pipework, which it said was covered by the policy. It also said the drainage was suffering from poor fall, which needed to be put right, but wasn’t covered by the policy.
- A later re-surveyed the drainage and found further defects it thought were covered by the policy. It valued the cost of repairs at around £1,500 and paid this amount, less the excess, to Ms T to put towards the wider drainage work required.
- Ms T arranged for a different drainage company, B, to carry out the repairs. But she got back in touch with LV because she continued to experience drainage problems. A considered the matter again but didn’t change its position. It reviewed B’s post-work survey and said all the defects A had identified had been repaired.
- Ms T complained. She said she’d paid around £6,000 to have the drainage work completed, so she’d been left with a considerable shortfall. And the problem wasn’t fully resolved. LV didn’t provide a final complaint response within the eight week timeframe, so Ms T referred her complaint to this Service.
- Our investigator thought the complaint should be upheld in part. She said LV had covered the right amount of work. But its payment was based on its own contractor rates, not those of Ms T’s – despite not offering for its own contractor to do the work. So she asked LV to pay an additional amount, plus interest, to reflect the rates charged by Ms T’s contractor and £100 compensation.
- LV said A could have carried out the covered work, but that wouldn’t have resolved the uninsured problem with the fall. So it was in Ms T’s interest for it to settle the claim by cash payment, which she could put towards the wider work. And Ms T thought all the work she had carried out should be covered.
- As an agreement couldn’t be reached, the complaint has been passed to me.

My provisional decision

I recently issued a provisional decision in which I said:

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

- In summary, LV has accepted and settled some of the claim – but not all of it. So I'll start by considering what the policy covers and whether that means LV has accepted as much of the claim as it should do. I'll then go on to consider whether it fairly settled the claim and whether it should pay compensation.

What does the policy cover?

- The relevant parts of the policy say it covers:
 - 'Accidental breakage' to underground pipes
 - 'Accidental damage' to the buildings, which includes underground pipes
- Where accidental breakage or damage is defined to mean: sudden, unintentional and unexpected physical damage or breakage that can be seen.
- This means that not all problems one might encounter with a drainage system are covered – only those which meet the terms set out above.

Has LV accepted as much of the claim as it should do?

- When it surveyed the drainage, A identified a number of defects which it accepted were covered by the policy. So that's not in dispute.
- A also identified poor fall in the pipework, which it thought was the underlying cause of the drainage problems Ms T had experienced. It didn't think this was covered by the policy as it was likely to have been installed that way. I haven't seen any professional opinion to challenge this, and it's how poor fall usually occurs, so I accept it. Bearing in mind the terms set out above, I agree that rectifying the poor fall doesn't amount to accidental breakage or damage and isn't covered by the policy.
- Ms T had a survey carried out by B before it carried out the work. It identified cracks and displaced joints in the same area as A did. It also identified further problems like this in another section. A reviewed this survey and didn't change its position. But after further discussion with this Service, it concedes it missed some further defects that amount to accidental breakage or damage, and which are covered by the policy.
- As a result, LV, through A, has increased its offer to settle the claim to £2,299.36. I'll consider that in the next section.

Has LV fairly settled the claim?

- I agree with LV that a cash settlement was in Ms T's interest. The pipework needed to be replaced to resolve the uninsured problem with the fall. Repairing the insured defects in those pipes prior to replacement wouldn't have helped Ms T. But giving her the cost of repairs meant she could put that towards the cost of replacement.
- So the dispute isn't about whether LV should have cash settled. It's about the amount of the cash settlement. LV settled at the amount it would have cost A to do the work. Insurers usually receive preferential rates from their contractors, so they tend to pay less than the open market cost a policyholder is likely to face. That means it's likely to have cost Ms T more for the same work through B than it would have cost LV through A.

- The first question for me is whether LV should settle at A or B's rates for the same work. Ordinarily I'd likely only find it fair for LV to settle at A's rate, ie the lower amount, if LV had offered to do the work – and Ms T had declined that offer. Here, LV didn't offer to do so. But, even if it had, I think it's likely Ms T would have declined for the reasons set out above – it would have been more beneficial to her to have the money to put towards the replacement work. As a result, I'm satisfied it's fair for LV to settle at A's rates.
- The next question is how much LV should pay. It's increased offer of £2,299.36 takes into account the insured defects it originally identified, as well as the additional ones identified by B. And the amount it's offered is based on the cost to LV, at A's rates, of carrying out the relevant repairs to the defects. In these circumstances, I'm satisfied this is a reasonable offer to settle the claim. So I'll require LV to pay this amount, less the settlement it's already paid, which I understand is around £1,400.
- In my view, A ought to have identified all insured defects from the outset. So it should have paid £2,299.36, rather than £1,400. As a result, Ms T has unfairly been without the difference for a period of time. It follows that LV should add interest to the payment of the additional amount. I think it would be reasonable to do so from the date of it's earlier payment. I'm not sure exactly when that was, but based on the information I have, I consider 1 June 2023 is a reasonably accurate approximation.

Should LV pay compensation?

- Our investigator thought LV should pay £100 compensation for the distress and inconvenience caused to Ms T by the way it handled the claim. I agree. There have been some avoidable delays to settling the claim in full, which would have had an impact on Ms T. I consider £100 is fair compensation for that impact.
- There would have been additional distress and inconvenience to Ms T caused by the uninsured problems, but that's not something I can hold LV responsible 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.

- LV responded to say it accepted my provisional decision. It also clarified it had paid £1,389.57, after deduction of the £100 excess, for the original settlement.
- Ms T didn't respond to my provisional decision.
- I remain satisfied the outcome I reached in my provisional is fair and reasonable in the circumstances. As there are no further comments or challenges for me to consider, I don't think the matter needs further discussion.

My final decision

I uphold this complaint and require Liverpool Victoria Insurance Company Limited to:

- Pay a total of £2,299.36 to settle the claim, less the settlement already paid.

- To the payment of that additional amount, add interest at 8% simple per annum, from 1 June 2023 to the date of settlement.
- Pay £100 compensation.

*If LV considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Ms T how much it's taken off. It should also give Ms T a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 10 February 2025.

James Neville
Ombudsman