

The complaint

Mr W complains that Covea Insurance plc (“Covea”) has unfairly settled a claim under his home insurance policy following a burglary.

Any reference to Mr W or Covea includes respective agents or representatives.

What happened

The background of this complaint is well known between parties, so I’ve summarised events.

- In January 2023 Mr W’s home was broken into and burgled.
- Mr W made a claim to Covea and following a back and forth regarding the locks of the property, the claim was accepted.
- Covea settled the buildings part of the claim. But on the subject of contents it said Mr W’s belongings were underinsured. Mr W held contents cover of up to £60,000. His annual premium was around £1,280. But when assessing Mr W’s claim, it said the total sum of his contents was £83,638.04.
- As a result, Covea said Mr W had 71.73% of the cover he required. And when settling his claim it had relied on an average clause within its policy terms to reduce the settlement by this percentage. So, after reducing his claim accordingly, this gave him a settlement of around £22,000 for contents after relevant deductions or fees.
- Mr W complained, and Covea stood by its position within its final response letter in August 2024. And it told Mr W any dispute about the set up or sale of the policy would need to be taken up with the broker of the policy.
- Mr W brought his complaint to this Service. He said Covea had only paid him around 72% of his claim and had unfairly held back a sum of £8,794.39. Mr W also raised concerns about Covea’s wider handling of the claim.
- Our Investigator looked into the complaint. He asked Covea some questions about its settlement and what it would have charged Mr W in premiums had his contents cover reflected the cover he required.
- Covea provided an email from its underwriter that said the correct premium for £100,000 of cover would be £1,453.97.
- Covea said the policy terms allowed the insurer to reduce a claim proportionately if the insurer would’ve charged more for the insurance. This meant its previous calculation as an average of his amount of cover was not correct. And completing this revised calculation around the increased premium would’ve meant Mr W paid 88.28% of the premiums he should’ve paid. So, it said he was owed an additional sum of £5,138.64.

- Our Investigator upheld the complaint, saying:
 - He considered if Mr W had acted reasonably, and how the contents figures in question had impacted Covea, if at all.
 - Covea's email from its underwriter simply stating what the revised premium would've been wasn't good enough evidence to show the impact of Mr W's underinsurance.
 - Covea had provided nothing to support what information it required from the broker – therefore he wasn't satisfied Covea had effectively asked for information about the sum insured. Therefore, he wasn't satisfied Mr W's answer was unreasonable.
 - Having spoken to Mr W at length about the sale of the policy (through the broker), the Investigator was satisfied Mr W's understanding was the level of cover required equated to the most he would receive in the event of a claim. And without more from Covea, Mr W's answer was reasonable.
 - He directed Covea to settle the claim in line with the remaining terms of the policy without deduction, adding 8% simple interest to any outstanding amount from the date it should've been paid until the date of payment. He also awarded £200 compensation for the distress and inconvenience caused.
- Mr W accepted the assessment. Covea did not, stating it did not disagree Mr W's understanding of the question he was asked about the level of cover he selected. But it said this Service had not considered the terms of the contract which required the policyholder to insure all of their contents for the full cost of replacement and a condition which allowed it to reduce the claim in the event this hadn't happened.
- Covea said its application of the proportionate remedy was not on the basis of the consumer acting reasonably or not, instead it was merely enacting the terms of the contract as defined within its policy terms. And it said it did not agree with an approach to say a condition should not apply because an insured only believed they needed to insure themselves for an arbitrary amount instead of the value at risk despite it being clear the sums insured should be adequate.

So, the matter has been passed to me for an Ombudsman's 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.

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Having done so, I'm upholding this complaint. I'll explain why.

Covea has sought to rely on the 'proportionate remedy' condition within its contents terms. It has done so because it says Mr W's level of cover for his contents wasn't right.

I will note here that within its final response letter Covea referred to some separate terms which it had applied. I don't think it's positive that the wrong terms were applied – but in the spirit of progressing matters, I will focus on the terms it is currently applying (which are more

favourable than the average condition it had discussed).

So, I've looked at the terms which say:

“Proportionate remedy - If the cost of replacing or repairing the contents is more than your sum insured at the time of any loss or damage, then your insurer will proportionally reduce the amount of any claim payment made by the percentage of under payment of premium which has arisen as a result of the shortfall in sum insured. For example, if the premium you have paid for your contents is equal to 75% of what your premium would have been if your contents sum insured was enough to replace the entire contents of your home as new, then your insurer will pay up to 75% of any claim made by you.”

In this case, there's no dispute that Mr W's contents were insured for “up to £60,000” (as detailed in the policy schedule) and that they would cost more than this to replace as new (to the value of £83,638.04). Mr W has put nothing forward to persuade me these figures are unreasonable.

So, on its face, it would appear Covea has the right to reduce the settlement of Mr W's claim taking into account the amount his premiums should've been had he been sufficiently insured. I will go on to consider whether this is fair and reasonable in all of the circumstances below, but before doing so I will address its calculation based on premiums.

Mr W's premium for the policy was £1,283.50. So, if I proceeded on the basis this condition could be applied (as I've outlined, I will discuss whether this is the case below), I would expect Covea to demonstrate the cost Mr W should've paid had his premiums been reflective of the 'as new' replacement value of his contents (in line with the above terms).

Covea has provided an email from its underwriter from May 2023 that said the premium would've been £1,453.97 had the contents cover been increased from £60,000 to £100,000. When asked to provide underwriting information to support this Covea agreed to obtain this, but nothing was ever provided.

I accept the figure Covea has provided here may be an accurate figure. But the absence of supporting information or context around it from its underwriter doesn't persuade me that this would lead to a fair and reasonable outcome in this case. I say this as it's unclear why the sum would need to increase from £60,000 to £100,000, instead of either the actual value Covea is stating should apply (around £84,000) or a nearer figure of £90,000 for instance. And it's unclear whether the premiums quoted are in line with Covea's underwriting information that applies to all policyholders.

As a result, I'm not satisfied Covea has demonstrated to this Service that its figure that it has relied upon to state Mr W's premiums were reflective of around 88% of what his premiums should've been is accurate. For this reason, I don't think it would be fair nor reasonable to allow Covea to reduce Mr W's settlement as it has set out to do so.

I will now go back to the wider condition within the circumstances of this complaint.

There are laws and industry wide best practice about the responsibilities on insurers and consumers when starting or renewing a policy, so we think it's in line with those laws, best practice, and fair and reasonable in the circumstances to consider those responsibilities.

In this case there's no dispute this policy was taken out through a broker (“Company A”). And in such instances, we wouldn't look to hold an insurer responsible for the mistakes made by a broker. But we would look at what questions or information the insurer has sought

from the broker to enable the broker to obtain the right information. In turn, this may impact whether we consider a reasonable answer was given by the policyholder.

So, I've thought about the information Covea had sought from the broker. This Service has specifically asked Covea about any specific information it sought related to contents, or questions that sat around this.

In response, Covea said it didn't believe it could provide any information around this.

So, there is no dispute that Covea cannot provide any information to show what it had asked of the broker. This means Covea can't demonstrate whether it set a clear expectation for the broker to obtain clear and accurate information in line with its policy terms.

Mr W has put forward that he understood the contents sum to mean the total amount he could claim for – as opposed to the total worth of all of his belongings. Covea has accepted this, or at very least hasn't disputed it.

As a result, I'm not satisfied it would be fair or reasonable for Covea to rely on the policy term which effectively required the sum insured to be the replacement cost, when there's no evidence it asked the broker to establish the replacement cost with Mr W.

Mr W's claim for contents is below the £60,000 level of contents cover he had in place. But his policy allowed him £30,000 for valuables within the home. It seems Mr W's loss includes just over £30,000 losses for jewellery. As I think he was aware of this policy limit I see no fair reason to direct Covea to pay above this.

As a result, I'm satisfied Covea should settle Mr W's claim without reduction up to the policy limit of £60,000 in line with the remaining relevant terms and conditions. And I say this alongside my concerns outlined above about its premium calculations and lack of evidence to support this in this particular case.

Covea said there was still a requirement on the insured to ensure their cover was adequate and that their contents should be insured for the full costs of replacement as new, and if their information was not accurate any such claim may be not paid in full, or terms/premiums may be changed, or the policy may be invalidated.

In saying this I believe Covea is referring to its policy book which I agree clearly set out that the contents sum should be reflective of all contents owned. But these are terms that would've been presented to Mr W after the policy was sold and after any information, he'd provided to the broker based on their questions to him (which in turn, would've stemmed from the information Covea asked of the broker – which it has been unable to evidence). So, I think this has come too late to allow Covea to fairly rely on these terms when looking at the overall sales journey.

I want to address Covea's comments that its application of the proportionate remedy was not on the basis of the consumer acting reasonably or not, and that instead Covea was merely enacting the terms of the contract as defined within its policy terms. Covea will be aware that the role of this Service requires me and other Ombudsmen to consider if terms have been applied in line with the policy wording, but also whether or not they've been applied fairly and reasonably in the circumstances of each case. And here, for the reasons I've given above – namely about Covea's inability to provide evidence in relation to the information it sought from the broker, and how its premiums were calculated – I don't think it would be fair to apply them in these circumstances.

Covea has also said it did not agree with an approach to say a condition should not apply

because an insured only believed they needed to insure themselves for an arbitrary amount instead of the value at risk despite it being clear the sums insured should be adequate. But again, to determine that Mr W has been insured for an arbitrary amount is its own words on this situation. I want to reiterate the approach of this Service isn't simply based on the consumer's understanding, and the other factors I've described above are relevant too. Such as what info Covea asked the broker to gather, and what impact alleged underinsurance would have on Covea. But on both points in this particular case, Covea hasn't provided sufficient information so that's impacted the outcome to this case. For the reasons I've given, I don't believe Covea has demonstrated that it took sufficient steps to ensure the broker knew what needed to be obtained on its behalf.

Taking into account the journey Mr W has had, and the information he's been provided with, I'm satisfied a sum of £200 compensation reflects the unnecessary distress and inconvenience Covea has caused to him.

My final decision

I uphold this complaint. I direct Covea Insurance plc to:

- Settle the contents claim, subject to the remaining terms and conditions of the policy (without any proportionate remedy reduction).
- Pay Mr W interest on the outstanding contents claim settlement at 8% simple per year from the date Covea made its first settlement for contents payment until the date of settlement.
- Pay Mr W £200 compensation to reflect the distress and inconvenience it has caused.

*If Covea considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr W how much it's taken off. It should also give Mr W 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 Mr W to accept or reject my decision before 5 March 2025.

Jack Baldry
Ombudsman