

The complaint

Mr and Mrs P are unhappy with the way Lloyd and Whyte (Financial Services) Limited sold and renewed their home insurance policy.

What happened

Mr and Mrs P took out a home insurance policy through a broker in 2012 and renewed it with them each year up to 2022. Lloyd and Whyte purchased this broker's book of business in 2023. So, Mr and Mrs P's complaint has been set up against Lloyd and Whyte. For simplicity, further reference to Lloyd and Whyte throughout this decision includes the original broker.

In April 2022, Mr and Mrs P logged a claim with the insurer of the policy for fire damage to their home.

Their insurer accepted the claim but said it would only settle it proportionately because the rebuild cost Mr and Mrs P declared at the latest renewal was significantly lower than it should have been, meaning they were underinsured.

Mr and Mrs P complain that Lloyd and Whyte didn't give them clear enough information for them to realise they were underinsured. They want Lloyd and Whyte to pay the shortfall in the claim settlement.

An investigator at the Financial Ombudsman Service considered Mr and Mrs P's complaint and thought it should be upheld. She agreed Lloyd and Whyte made it clear at the point of sale in 2012 that Mr and Mrs P needed to provide an estimate of the full rebuild cost of their property. But at the 2022 renewal, she said Lloyd and Whyte only asked them to confirm the buildings "sum insured". She said this didn't make it sufficiently clear that Mr and Mrs P needed to confirm the rebuild cost of their property, and that it was unreasonable to expect them to remember that's what they needed to provide from the original sale ten years prior.

Lloyd and Whyte didn't accept our investigator's opinion. So, as no agreement has been reached, the complaint has been passed to me to decide.

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.

Having done so, I've reached the same outcome as the investigator. I'll explain why.

As the party responsible for selling and renewing Mr and Mrs P's policy, Lloyd and Whyte was responsible for providing Mr and Mrs P with information that was clear, fair and not misleading, so that they could understand what information they needed to provide or confirm. In my view this includes gathering the information the insurer wanted to know and ensuring Mr and Mrs P were reasonably aware of the information they needed to provide, together with providing a reasonable level of guidance about how they could do that.

And as each policy renewal is essentially a separate sale, I think Lloyd and Whyte owed this same duty to Mr and Mrs P at each separate renewal, as well as at the original sale.

The 2022 renewal is most relevant to this complaint, as this was the relevant sale for the policy year in which their claim took place. In the 2022 renewal documents, Lloyd and Whyte provided Mr and Mrs P asked them to confirm that the buildings cover “sum insured” of £271,600 was sufficient. But I can’t see that it was explained anywhere within the renewal documents that ‘sum insured’ meant the full rebuild cost of Mr and Mrs P’s property.

I accept that Lloyd and Whyte made this clear during the initial sale. But like our investigator, I don’t think it’s reasonable for Lloyd and Whyte to expect Mr and Mrs P to remember this from the original sale come the renewal a year later, much less ten years on.

Instead, what would be reasonable is for Lloyd and Whyte to clearly set out exactly what was meant by ‘sum insured’ within the renewal invitation, so that Mr and Mrs P could easily understand what information they needed to check and provide. And for it to provide reasonable guidance as to how they could go about obtaining such information. Particularly given the risk of serious detriment to Mr and Mrs P if the information they were to give about the ‘sum insured’ was incorrect. But I can’t see that any of the renewals made it clear what was meant by ‘sum insured’. I’ve also not seen anything to suggest that Lloyd and Whyte provided any support or guidance as to how Mr and Mrs P could go about obtaining a reasonable estimate of the rebuild cost at the point of sale, nor during any of the subsequent renewals.

To be clear, I accept that Lloyd and Whyte weren’t required to calculate the rebuild costs on Mr and Mrs P’s behalf. But I think it ought to have provided reasonable guidance or support for them to know where they could go to obtain a reasonable estimate. Particularly as Mr and Mrs P’s property is of non-standard construction, and Lloyd and Whyte hold themselves out to be specialists in placing insurance for properties of that nature.

Ultimately, I think Lloyd and Whyte should have done more during the original sale to help Mr and Mrs P. Even though I think Mr and Mrs P would have reasonably understood they needed to provide an estimate of the rebuild cost during the original sale, I don’t think Lloyd and Whyte did enough to fully support them to provide a reasonable estimate.

I also accept that Lloyd and Whyte didn’t need to go through the full initial sales process again at every renewal. But I maintain that it had a duty to provide Mr and Mrs P with information that was clear, fair and not misleading, so that they could understand what they were being asked for and what the potential consequences of getting the answer wrong could be. And I’m not satisfied the information provided during any of the policy renewals I’ve seen, were sufficient to discharge that duty.

Lloyd and Whyte has argued that the renewal documentation included Mr and Mrs P’s policy booklet, which did explain that sum insured meant the rebuild cost. But again, like our investigator, I don’t consider it is reasonable to expect a policyholder to cross-reference numerous different documents, including one which is over 40 pages long, in order to understand a question they are being asked. Particularly a question of such vital importance.

I also note that there is nothing in the renewal notice or policy schedule which referred Mr and Mrs P to check which page of the policy booklet defined what was meant by “sum insured”. And there is no definition of ‘sum insured’ in the specific policy definitions section of the policy wording either. So, in order to find that information, Mr and Mrs P would have needed to locate it on pages 25 and 26 of the 45-page policy booklet, without being specifically directed to look there. I don’t think that’s fair – especially given the significance of the buildings sum insured.

Based on the above, I don’t think Lloyd and Whyte did enough to point Mr and Mrs P to the appropriate page within the policy booklet which explained what was meant by ‘sum insured’. So, even if I thought it was reasonable to expect Mr and Mrs P to cross-reference their policy wording in order to understand what they were being asked to confirm in relation to the ‘sum insured’, which to be clear I do not, I still wouldn’t conclude that Lloyd and Whyte made things clear enough to enable Mr and Mrs P to provide a reasonable answer in this case.

Lloyd and Whyte has also highlighted that an Insurance Product Information Document (IPID) was provided to Mr and Mrs P with each renewal and that this explained what was meant by sum insured, and what would happen if the sum insured was too low at the point of a claim.

The IPID explains, under the subheading “*what is insured*” that the cover for buildings is the cost of repairing, replacing or rebuilding the home up to an agreed sum insured. But it doesn’t specifically state that the term or phrase ‘sum insured’ on the renewal invitation and schedule, was intended to mean the cost of rebuilding the property at the time of loss. And while the IPID goes on to explain the potential consequences of the ‘sum insured’ being inadequate, under a different subheading, it again fails to specify that when selecting or confirming a ‘sum insured’ the amount Mr and Mrs P selected or confirmed needed to be sufficient to cover the full cost of rebuilding their property. So, I don’t think the IPID was sufficiently clear for Mr and Mrs P to understand the information they were being asked to confirm either.

And again, even if the IPID had been clearer, I’m not satisfied it’s fair to expect consumers to need to cross reference multiple different documents in order to understand a question being asked of them.

Based on all the above, I consider that Lloyd and Whyte failed to provide Mr and Mrs P with sufficiently clear information and guidance around what information they needed to provide or confirm. And I think that failure is the dominant cause of them being underinsured at the time of loss. Had Lloyd and Whyte been sufficiently clear, and supported Mr and Mrs P with reasonable guidance as to where they could obtain a reasonable estimate of the rebuild cost, I’m persuaded on balance that they would most likely have done so. I say this because it’s likely that Mr and Mrs P would wish for their home (likely their largest and most expensive investment) to be fully insured. So, had Lloyd and Whyte been sufficiently clear, on balance, this would have meant Mr and Mrs P would have been fully insured, and so wouldn’t have suffered a shortfall in the event of a claim.

In these circumstances, I consider it fair and reasonable to direct Lloyd and Whyte to cover the claim settlement shortfall, in order to fairly put things right. I’ve seen that Mr and Mrs P’s insurer settled their claim by paying a cash settlement of £328,438.88. But based on the tender exercise it carried out, the full cost of repairs was £399,039.46. So, to fairly put things right, I think Lloyd and Whyte should pay Mr and Mrs P the claim shortfall of £70,600.58.

My final decision

Lloyd and Whyte (Financial Services) Limited must:

- Pay Mr and Mrs P £70,600.58

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P and Mrs P to accept or reject my decision before 19 February 2025.

Adam Golding
Ombudsman