

## **The complaint**

Mr and Mrs T complain about the way Zurich Insurance PLC handled a claim they made on their household insurance policy.

Any reference to Zurich also includes its appointed agents, such as contractors.

## **What happened**

Mr and Mrs T made a claim on their policy in September 2022; damage had been caused to flooring due to a leak from an appliance. Zurich accepted the claim, and its contractors carried out some repair works. Mr and Mrs T were unhappy with the quality of repairs and so complained to Zurich. In August 2023 Zurich responded to the complaint, it accepted some of the works carried out had been done to an unacceptable standard. In recognition of that, it offered £750 compensation for the unnecessary distress and inconvenience caused to Mr and Mrs T as a result of the poor handling of the claim.

Zurich said it would hire another contractor to correct the errors made by the previous one. However, around November 2023, not wanting their tenants to face any further disruption, Mr and Mrs T asked for a cash payment to be made to them instead. They said this would allow them to have the works done when there was a gap between tenants. Zurich said this was acceptable. It said based on the schedule of works from its contractor, it would pay Mr and Mrs T £14,300 (inclusive of VAT) for the necessary work needed. However, Zurich said it would pay the VAT element only on receipt of confirmation VAT had been paid.

Mr and Mrs T said the settlement wasn't enough for the works needed. They were also unhappy with Zurich withholding the VAT. Zurich responded to that further complaint in March 2024. It said it was common in the insurance industry for VAT payments to be made only after an invoice, showing the contractors charged VAT, was produced.

Unsatisfied with Zurich's response, Mr and Mrs T referred their complaint to the Financial Ombudsman Service for an independent review. They said given the problems and delays encountered, they wanted the payment to be made inclusive of VAT to draw a line under the claim.

Zurich told this Service that it had – since its January 2024 offer – increased the cash settlement payment to allow for the removal and refitting of the granite worktops. As a result, it said it would pay £13,600, exclusive of VAT. It maintained its position that it would only pay VAT on receipt of an invoice.

Our investigator thought Zurich had made a reasonable offer, and it was entitled to rely on the costings of its contractor, since Mr and Mrs T hadn't provided any schedule of works from their own contractors. She thought Zurich's offer of £750 for the period leading up to the first complaint response was fair. She recommended Zurich pay £200 compensation for further delays and communication since it issued its first complaint response.

In response, Mr and Mrs T did provide their own schedule of works. This included other works needed to the property that weren't attributable to the insured event, such as a new central heating system. Zurich said, once those items had been removed, Mr and Mrs T's contractor's quote was about the same as their offer.

After some back and forth with the Investigator, Zurich said it would increase the offer further to pay £15,090 for the necessary repairs (exclusive of VAT). Our Investigator was satisfied this was a fair offer.

Mr and Mrs T didn't accept that, so they asked for an Ombudsman to consider matters. They said an allowance for breakages hadn't been included by Zurich. They said the granite worktop, which needed removing (and refitting) as part of the works, was likely to break and so would need to be replaced. They said they wanted £18,886 to resolve matters.

As the matter wasn't resolved, it has come 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.

This has been a long running claim, one that would've been resolved a long time ago, but for Zurich's poor reinstatement work. Whilst I'm not going to repeat all of the issues here, given the history is well known to the parties, I want to reassure Mr and Mrs T that I'm aware Zurich has caused them unnecessary distress and inconvenience. As this is an informal Service, I'm going to focus on the key issues that seem to remain in dispute. I see there being three key points to consider: is Zurich's offer of settlement fair and reasonable? Should Zurich pay the VAT element upfront? And has Zurich fairly compensated Mr and Mrs T for the unnecessary distress and inconvenience it caused during the claim?

#### Is Zurich's offer of settlement fair and reasonable?

The most recent offer from Zurich has been a claim settlement of £15,090, exclusive of VAT. Having considered matters, I'm satisfied that is fair and reasonable for the insured works needed to the property. Zurich has reviewed Mr and Mrs T's quote; its only omissions seem to me to be for items which Mr and Mrs T accept are not required as a result of the claim.

Mr and Mrs T thought some other costs had been unfairly excluded. However, I'm mindful that Zurich has cash settled this at Mr and Mrs T's rates, rather than its own. Generally, where a policyholder requests a cash settlement, but an insurer offers reinstatement, this Service will say it's fair for Zurich to cash settle for what it would have cost it to do the repairs, not what it will cost Mr and Mrs T. Zurich had offered to carry out the necessary rectification works, but Mr and Mrs T requested the cash settlement to suit them and their tenants. As such, given Zurich hasn't reduced the settlement to account for any saving it would receive from its contractor, I'm persuaded Zurich has made a reasonable offer for the works needed to the property.

The sticking point for Mr and Mrs T seems to be that they're concerned that the granite worktops might be damaged when being removed or reinstalled. They want Zurich to include an amount for their replacement. I don't think Zurich has been unfair in excluding this cost in its settlement offer. If Zurich was carrying out the works, then I'd expect, if its contractor did damage the worktops, for Zurich to pay for the cost of replacement. But here, at Mr and Mrs T's request, Zurich isn't doing the work. So I don't think it's reasonable for it to include a cost Mr and Mrs T *may* incur when their own appointed contractors carry out the repairs. And I'm satisfied that it is possible to remove granite without it being damaged, if it is done carefully. After all, the granite was installed in the kitchen in the first place seemingly without any issue. And bearing in mind what I've said above about Zurich not settling at its own rates, like it could have done in this case, I'm not persuaded it needs to increase the offer it has made any further.

#### Should Zurich pay the VAT element up front?

I'm satisfied that it shouldn't. If a contractor charges a consumer VAT, the contractor must pay the VAT they have received to HMRC. In effect it is collecting the tax revenue for the government. So the VAT doesn't form part of the cost of the work itself – it's an extra amount

in addition to the cost of the work. As a result, we'd only expect Zurich to pay the VAT element to Mr and Mrs T once they provide evidence they've paid it. In the circumstances of this case I see no reason to depart from our usual position. I appreciate Mr and Mrs T want one payment to be done dealing with Zurich, but I'm not satisfied that is fair to Zurich. If Mr and Mrs T decided not to carry out any works to the property, then it will have paid Mr and Mrs T more than it needed to by including a VAT amount onto the settlement.

I also note that Zurich offered to issue an interim payment to Mr and Mrs T in 2024, that seems to have been declined. And as far as I'm aware, Mr and Mrs T haven't provided any invoices, including an amount for VAT, for any works they've had carried out. As such, I'm not going to ask Zurich to pay the VAT element upfront.

Has Zurich fairly compensated Mr and Mrs T for the unnecessary distress and inconvenience it caused?

There is no doubt that Zurich's handling of matters has prolonged the claim, causing Mr and Mrs T unnecessary distress and inconvenience. But the awards this Service makes are not punitive. For events up to the first complaint response (in August 2023), including the distress caused by the initial contractor's poor repair, I'm satisfied Zurich made a fair offer of compensation of £750. An award of that level is appropriate when significant inconvenience and disruption is caused, which requires a lot of extra effort to sort out. As such, whilst Zurich handled matters poorly, I'm satisfied it recognised that and awarded an appropriate level of compensation.

There was some further delay with the claim, caused by Zurich, after August 2023. That included a delay in inspecting some doors. I can see this would have been frustrating for Mr and Mrs T, given the claim journey to that point. However, I'm satisfied £200 is reasonable compensation for such a delay. I am mindful that in January 2024 Zurich's settlement offer was lower than what it is now offering. However, I'm not going to make any additional compensation award for that. I can't see Mr and Mrs T have tried to complete any works since that offer was made. And so they haven't been inconvenienced by receiving a lower amount for those works than they should've done.

**My final decision**

My final decision is that I uphold this complaint and I direct Zurich Insurance PLC to:

- Pay Mr and Mrs T £15,090 in settlement of the claim (less any amount already paid), exclusive of VAT.
- Pay Mr and Mrs T for any VAT paid on the repairs, upon receipt of an invoice showing VAT has been paid.
- Pay Mr and Mrs T a total of £950 compensation, less any amount already paid.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs T to accept or reject my decision before 30 July 2025.

Michelle Henderson

**Ombudsman**