

The complaint

Mrs P complains that Liverpool Victoria Insurance Company Limited (LV) avoided her home insurance policy, and declined her claim, following her home being burgled.

Reference to Mrs P and LV includes their respective agents and/or representatives.

What happened

Mrs P raised a claim with LV– her home insurance provider – for damage to her home, and the theft of multiple valuables, after she suffered a burglary.

LV carried out checks when validating Mrs P's claim, including looking into the value of contents and valuables within her home in comparison to the level of cover she selected when taking out the policy.

Mrs P's policy had a contents sum insured limit of £100k. LV's appointed expert concluded Mrs P's contents were likely worth between £700k to £800k – meaning she was substantially underinsured. Because of this, LV decided to avoid Mrs P's policy for misrepresentation, and so to refuse her claim.

An investigator here at the Financial Ombudsman Service considered Mrs P's complaint and thought it should be upheld in part. She agreed that Mrs P was significantly underinsured for her contents and valuables, and that LV had shown that if it was made aware of the accurate value of her contents, it would not have offered contents cover at all. Based on this, she thought LV had acted fairly in refusing the contents claim and avoiding the contents cover.

However, the investigator said that Mrs P's buildings cover was not underinsured, and that LV could, and would, have provided this cover separately regardless of Mrs P's contents sum insured. So, she said it would be fair for LV to reinstate the buildings cover, and to deal with the claim for damage to the buildings caused during the burglary. Should LV accept the claim, the investigator said it should add 8% simple interest to any amount due, from one month after the claim was made, until the date of settlement. She also recommended LV should pay Mrs P £200 compensation for the avoidable distress and inconvenience it had caused her by unfairly avoiding her whole policy, rather than just the contents cover.

Neither side accepted the investigator's assessment, and both provided additional comments which she answered in a second assessment. Fundamentally her opinion on what was fair remained the same.

Since the investigator's second assessment, no agreement has yet been reached. So, the complaint has now 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, while I appreciate this will likely disappoint both sides, I've reached the same conclusions as the investigator. I'll explain why.

But first, I should explain that I'm not intending to comment on every individual point or argument that's been raised by either side. Instead, I'll be focusing my decision on what I consider to be the points which are key to reaching a fair and reasonable outcome. This isn't meant as a discourtesy to either side. Rather, it reflects the informal nature of the Financial Ombudsman Service, and my role within it.

Mrs P's insurance policy was taken out online. The sales journey asked her to select her contents sum insured from a dropdown which, I understand, included options such as – up to £50k cover, up to £100k cover and up to £150k cover. There was no option for cover in excess of £150k.

Mrs P has argued that the questions she was asked weren't sufficiently clear, and that she understood that by selecting up to £100k cover, she'd be entitled to claim for up to £100k in the event of a loss, regardless of how much her total contents were worth.

I've had a look at the sales journey Mrs P would have seen. And from the information I've seen, when Mrs P was asked to select a sum insured, beneath the words '*Contents sum insured*' it stated:

"Make sure this is enough to replace all your contents as new – including any items you've already added."

Additionally, alongside the words, '*Contents sum insured*' and the dropdown was an 'i' icon, which, when selected, expanded an additional explanatory note which said:

"This cover is for all your household goods like furniture, valuables and business equipment. Imagine tipping your house upside down - all the things that fall out can be covered by your contents insurance. Please make sure this is enough to replace all of your contents, valuables, personal belongings and / or bicycles as new. For full details see our policy document."

Further to the online sales journey, I note that further information was provided within the welcome pack Mrs P was sent as part of the sale, which explained the contents sum insured needed to cover all of Mrs P's contents. For example, the page headed, '*your policy at a glance*' said:

"Please read everything that makes up your contract as one document. Is all the information correct? If not, please let us know straight away so we can get it right – if you don't, we may reject any claim or reduce the payments we make and in some circumstances we may cancel or avoid your policy (treat it as if it never existed)."

The Insurance Product Information Document (IPID) said:

"Loss or damage to your contents caused by things like fire, flood and theft – the level of cover you select will be shown in your policy documents. Please check this is enough to cover all your contents as new (including any valuables, bicycles and personal belongings)"

And:

“The limit of cover provided should be enough to cover all your contents as new (including any valuables, bicycles and personal belongings) otherwise any claim may not be paid in full.”

Based on everything I've said above, I don't agree with Mrs P that it wasn't made clear what the contents sum insured needed to cover. Instead, I think that the questions she was asked when taking out the policy, along with the additional information provided, made it sufficiently clear that the contents sum insured needed to be sufficient to cover all of her contents and valuables.

It isn't in dispute that the value of Mrs P contents was significantly in excess of the £100k limit. The claim she made for stolen valuables alone was for over £250k, and she signed a statement confirming contents and valuables which remained in her possession after the theft also exceeded £100k. So, taking everything into account, I'm satisfied that Mrs P failed to provide a reasonable estimate of the value of all her contents when taking out the policy and that this meant she was substantially underinsured.

When considering how to put things right in cases of underinsurance, I consider the fair and reasonable approach to be akin to the approach set out in the Consumer Insurance (Disclosure and Representations) Act 2012 (CIDRA) for misrepresentations of fact. That is, to consider what the insurer would have done differently had it been presented with the correct information – or, more accurately in these circumstances, a more reasonable estimate of the value of Mrs P's contents.

To be clear, I am not suggesting that CIDRA strictly applies to the circumstances here. I don't think it does because the value of contents in one's home, even one based on a professional valuation (which wasn't the case here) would be a statement of opinion, rather than a statement of fact (which is what CIDRA applies to). But that doesn't change my view that I think the fair outcome here should depend on what LV would have done had it been provided with a more accurate estimate of the value of Mrs P's contents.

LV has provided evidence from its underwriters which persuades me that had it known the value of Mrs P's contents exceeded £150k, that it wouldn't have offered contents cover, on any terms. Based on this, I consider it was fair and reasonable for LV to refuse to cover Mrs P's contents claim, and to avoid her contents cover from inception.

Mrs P has argued that her policy contains an underinsurance clause (sometimes referred to as an 'average clause') which explains that:

“Under insurance

It's important your cover meets your needs. At the time of a loss, if the limit of cover you've chosen is not enough, we may reduce the claims settlement in proportion to what your premium would have been if you had the correct sum insured. For example, if you only paid 70% of the premium you should have paid, the most we'll pay will be 70% of the claim you make.”

Mrs P says the Financial Ombudsman Service shouldn't seek to depart from a clear term in her policy.

I fully appreciate the policy contains the above term, and I've thought carefully about Mrs P's argument that I shouldn't depart from it. But I note that in addition to the underinsurance clause, the policy contains a '*misrepresentation, fraud and financial crime*' condition. This explains that LV can cancel or avoid a policy if it's provided with misleading or incorrect information to any of the questions it asks. So, I don't consider that allowing LV to avoid the contents cover would necessarily be departing from the policy terms and conditions.

But, in any event, my role is to decide what I think is fair and reasonable in the particular circumstances of Mrs P's complaint. In doing so, I'm required to consider the law, industry rules, regulations and best practice and the terms and conditions of the relevant policy. And, having done so, in the particular circumstances of this case, I consider the fair and reasonable outcome should depend on what LV would have done differently had it been provided with a more reasonable estimate of the value of contents and valuables at risk.

As LV has evidenced that it would not have offered a policy to Mrs P had it been made properly aware of the full value of her contents and valuables, I think it is fair and reasonable to allow LV to avoid the contents cover and to refuse the contents claim. However, like the investigator, I don't consider that LV has acted fairly or reasonably in avoiding the policy in its entirety – i.e., in avoiding the buildings insurance cover in addition to the contents cover.

I fully appreciate LV's argument that the policy was bought as a package. But I don't consider that necessarily means its fair for the entire policy to be avoided as a result of the contents being underinsured. I say this because there is no evidence that the buildings sums insured was inadequate, or that LV would not have offered buildings insurance cover had it known a more accurate estimate of the value of Mrs P's contents.

I can see that LV offered both contents insurance and buildings insurance separately, as well as combined into a package. And I've seen nothing to suggest the cover changes in any way depending on whether they are combined or separate. So, when considering what I think LV would have done differently if presented with a more reasonable estimate of the value of the contents, I'm persuaded it wouldn't have offered contents cover, but I can't see any reason why it would not have offered buildings cover. And even if LV would have sought to refuse cover for buildings because of the value of the contents (which I don't think it would have) I don't think that would be fair or reasonable. I say this because it wouldn't make sense for underinsurance on contents to influence the cover offered for buildings, where the building was not underinsured.

Taking the above into account, I don't think it was fair for LV to avoid the buildings cover, or to refuse to consider the claim for damage to the buildings.

To put things right, I think LV should reinstate Mrs P's buildings insurance cover and consider her claim. Should this result in LV accepting the buildings claim, there are several ways in which it may choose to settle the claim, such as by carrying out the repairs, or paying a cash settlement. If LV seeks to pay a cash settlement, it should also give consideration to the Financial Ombudsman Service's well publicised approach to interest, where fair payment of a claim settlement has been unreasonably delayed.

In any case, prior to LV considering the claim, I think it can first request that Mrs P repays the relevant premium for the buildings cover, as this was previously refunded when LV unfairly avoided the policy in its entirety.

LV has also explained there may have been a small discount to the buildings policy as a result of Mrs P taking the combined policy. But in the circumstances, I don't think it would be fair for LV to also insist this small amount is repaid. Instead, I think LV should waive this amount, and pay an additional £200 compensation, to recognise the avoidable distress and inconvenience it's unfair decision to avoid the buildings cover has caused Mrs P.

I do accept a large part of the distress and inconvenience Mrs P has suffered stems from the fact she didn't provide a reasonable estimate of the value of all her contents. But I do think Mrs P has suffered from additional and avoidable distress and inconvenience as a result of LV's unfair avoidance of the buildings cover. For example, the frustration of not receiving consideration of her claim under a policy she ought reasonably to have had, and the inconvenience of having to raise a complaint and pursue it all the way through to the Financial Ombudsman Service, just to get to the point of having that claim considered.

My final decision

For the reasons set out above, I uphold Mrs P's complaint in part.

Liverpool Victoria Insurance Company Limited must:

- Reverse the buildings policy avoidance and remove any record of it from any internal and external databases.
- Consider Mrs P's claim for the damage to her building caused during the burglary.
- Pay Mrs P £200 compensation for the avoidable distress and inconvenience it has caused her.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 9 July 2025.

Adam Golding
Ombudsman