

## **The complaint**

Mr and Mrs A complain that Cia Insurance Service Limited mis-sold them a buildings insurance policy.

## **What happened**

The circumstances of this complaint aren't in dispute, so I'll summarise the main points:

- Mr and Mrs A took out buildings insurance for a rental property, through Cia, an independent intermediary, in 2012. It renewed annually and was underwritten by a variety of insurers over the years.
- At the 2022 renewal, the policy became underwritten by an insurer I'll call A. The buildings sum insured was around £240,000. I understand the underwriter changed to another insurer at the 2023 renewal, so A only provided cover for one year.
- During that year, Mr and Mrs A got in touch with A to make a claim for damage to their conservatory. A said the damage was caused by subsidence and covered by the policy. However, it said Mr and Mrs A were underinsured, and that meant the claim wouldn't be covered in full.
- Mr and Mrs A got in touch with Cia about its role in the matter. Cia said Mr and Mrs A had been underinsured since 2012, in part because they'd asked Cia not to index link the sum insured for the policy in 2013 and 2014. When Mr and Mrs A challenged this, Cia said it didn't index link the sum insured in those years because it had requested to reduce the premium.
- A complaint arose and Cia responded in May 2024. It said it hadn't index linked in those years, but it had nonetheless been Mr and Mrs A's responsibility to check the sum insured was sufficient at each renewal – and that had been explained in the policy documents Cia provided.
- Our investigator thought the complaint should be upheld. She said Cia hadn't acted reasonably when selling and renewing the policy, bearing in mind it was an advised sale. She asked Cia to cover the claim shortfall, plus interest, and pay £250 compensation for the distress and inconvenience caused.
- Cia said the original sale may not have highlighted the importance of an accurate rebuild cost and sum insured – but subsequent renewals over the following ten years had. So it didn't think it was responsible for the underinsurance and claim shortfall.
- As an agreement wasn't reached, the complaint has been passed to me.

## **My provisional decision**

I recently shared my 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.

- The scope of this complaint is limited. I can only consider any activities Cia is responsible for. That can include the way it sold and renewed the policy in any year, although my focus will be on matters relevant to the underinsurance problem.
- I can't consider in this decision anything any of the insurers are responsible for. For example, how A handled the claim, including the proposed reduction for underinsurance, and the premiums charged by any insurer.
- But it's a relevant matter of fact that in a related complaint against A, I intend to find that it can proportionately settle the cost of repairs at 85% due to underinsurance. That means Mr and Mrs A will face a 15% shortfall in the repair costs. In summary, they think Cia is responsible for the underinsurance and should make up the shortfall.
- Cia says it makes advised sales using a panel of insurance underwriters. And the policy documents it provided to Mr and Mrs A showed it carried out advised sales and renewals. That means Cia had to take reasonable care to ensure the suitability of its advice and to explain why a contract of insurance would be adequate to meet Mr and Mrs A's needs.
- At each sale or renewal, Cia was responsible for gathering from Mr and Mrs A the information required by the insurer of that year in order to setup the policy. It was also responsible for providing Mr and Mrs A with information that was clear, fair and not misleading so that they could make an informed decision about whether the policy was right for them, including whether they needed to make any changes to the cover provided.
- There has been much focus on the initial sum insured set for the policy in 2012, and the extent of index linking in the few years afterward. So I'll begin there.
- Cia accepts the initial sale may not have been as clear as it should have. When it first spoke to Mr A it gave the impression the sum insured was an amount he could freely choose, in part to achieve a competitive premium. It didn't firmly link the sum insured to the rebuild cost and it wasn't clear about the consequences of being underinsured. As a result, whilst Mr A initially intended to insure the property for £180,000, after speaking with Cia, the sum insured became £165,000.
- Cia also accepts it didn't carry out index linking to the sum insured in 2013 and 2014. It says this was because it requested to seek a premium reduction. I don't doubt that was the case. But Cia ought to have been aware that by not index linking the sum insured, it left Mr and Mrs A at risk of being underinsured in that year – and future years. By not index linking for a second year, the problem was compounded.
- I agree with Cia that, in principle, Mr and Mrs A still had a responsibility to check the sum insured themselves. But I think it's relevant to keep in mind this was an advised sale, where the initial guidance wasn't as clear as it should have been. By not giving clear guidance or increasing the sum insured in line with index linking, Cia was effectively advising Mr and Mrs A they didn't need to increase it. As the professional independent intermediary, the advice it gave carried a lot of weight. So I can understand why Mr and Mrs A may not have appreciated they could be underinsured at that time, based on the way Cia approached the sale and early renewals.

- In these circumstances, I'm satisfied Cia is responsible for the sum insured being too low in 2012, 2013 and 2014.
- Had the initial sum insured been set at £180,000, and index linked in 2013 and 2014, it would have been higher by the time of the 2022 renewal. Exactly how much higher is difficult to be certain about, as I don't have index linking data for those relevant years. But, even at around 3% per year, the sum insured would have been around the figure A estimated should have been given at the 2022 renewal. And, in that case, there would likely have been no claim shortfall.
- So, on the face of it, I can understand why Mr and Mrs A think Cia was responsible for the claim shortfall. But Cia notes there were a number of renewals between 2014 and 2022, and Mr and Mrs A had a responsibility to ensure the sum insured was accurate at those renewals.
- In my view, the impact of Cia's initial unclear guidance faded over the years and the documentation it sent at subsequent renewals became more important. So, by the 2022 renewal, the documentation was key.
- At that time, A wanted the sum insured to reflect the full rebuild cost, including external features. So it was Cia's responsibility to ensure Mr and Mrs A were aware of that, and provide a reasonable amount of guidance and support to help them estimate that cost.
- The relevant parts of the 2022 policy schedule say: *"Buildings ... Sum Insured: £239,393"* and, on the following page, *"Please check that the sums insured within this policy schedule represent the full reinstatement value of your property"*. It goes on to set out the potential consequences of being underinsured, including reduced claim settlements.
- I think this was much clearer than the initial guidance. It firmly links the sum insured to the rebuild cost – and highlighted the potential impact of underinsurance. However, it wasn't clear that the rebuild cost should include external features, such as external drainage, garden walls and paving.
- Mr and Mrs A said they used a reputable online rebuild calculator at the 2022 renewal. But they note they weren't guided by any party to include external features. Looking at A's estimate, it includes just under £240,000 for rebuilding the main property, including the conservatory – which is almost exactly the same sum insured as Mr and Mrs A say they were given by the rebuild calculator.
- In these circumstances, it seems to me that Mr and Mrs A followed the guidance they were given by Cia – but that guidance wasn't clear enough to ensure the information A wanted was gathered. And if they'd been given clearer guidance, I'm satisfied it's likely they would have followed it and not been underinsured.
- Taking all of the above into account, I'm not satisfied Cia met its responsibilities throughout the relevant time. And, as a result, it led to Mr and Mrs A being underinsured and suffering a claim shortfall of 15% of the repair costs. I don't think it would be fair for Mr and Mrs A to lose out because of this.
- To put that right, Cia should pay compensation for financial loss to the value of the claim shortfall brought about by underinsurance. That won't include the excess, as

Mr and Mrs A would have had to pay that regardless of underinsurance. I understand Mr and Mrs A haven't incurred that financial loss yet, so there's no interest to pay.

- Mr and Mrs A would always have suffered a degree of distress and inconvenience dealing with the claim. But that's not something I can hold against Cia, because it isn't responsible for the claim or the way it's been handled by A. However, it is responsible for the underinsurance problem in my view. That means it's responsible for any additional distress and inconvenience it's reasonably caused due to the impact of that problem on the claim.
- In these circumstances, I consider Cia should pay £250 compensation to reflect the avoidable distress and inconvenience it caused Mr and Mrs A.

### **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.

- Mr and Mrs A responded to my provisional decision. I understand they accept it.
- Cia also responded to my provisional decision and made two main points, which I'll address below.
- Firstly, Cia said if the sum insured had initially been set at £180,000, and index linked in 2013 and 2014, Mr and Mrs A would still only have been around 93% insured.
- I agree with Cia that if it had done those things, and assuming a 3% index linking in 2013 and 2014, it's likely the sum insured by the 2022 renewal would have been around £277,000. Whilst A initially based settlement on a £298,000 sum insured, it later estimated the rebuild cost at the time of the 2022 renewal would have been around £285,000 – and settlement has been based on that sum insured.
- £277,000 is more than 97% of £285,000. In these circumstances, I think it's likely the sum insured would have been considered a reasonable estimate of the rebuild cost by A. In line with the Insurance Act, that would have meant A wouldn't have been able to apply a proportionate settlement. And, as a result, it's unlikely there would have been a claim shortfall. So I'm satisfied it would be fair and reasonable for Cia to make up the entire shortfall, not just a proportion of it.
- Secondly, Cia estimated how much it may have to pay Mr and Mrs A in response to my proposed award. I appreciate it looking into that and sharing what it found. But I won't award a specific figure. As I understand it, the repair costs haven't been finalised by A. So the amount A must pay for repairs is unknown – as is the shortfall that will leave Mr and Mrs A.
- It wouldn't be fair to any party for Mr and Mrs A to be under or over indemnified, so I'll simply award the shortfall in principle. But A is required to pay 85% of the repair costs, so Cia can expect to pay the remaining 15%, aside from the £1,000 excess. For clarity, Cia will also have to pay £250 compensation, though I note it included this figure within its estimate.
- Overall, I remain satisfied the remedy I set out in my provisional decision is fair and reasonable for the reasons given.

### **My final decision**

I uphold this complaint and require Cia Insurance Service Limited to:

- Pay compensation for financial loss to the value of the claim shortfall brought about due to underinsurance.
- Pay £250 compensation for non-financial loss.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A and Mr A to accept or reject my decision before 20 May 2025.

James Neville  
**Ombudsman**