

The complaint

Mr W complains about U K Insurance Limited trading as NIG's settlement of a claim made under his farm insurance policy after a storm caused damage to his home and farm buildings.

What happened

The background to this complaint is well known to both parties, so I'll provide only a brief summary here, concentrating on the issues that remain in dispute and the key information and evidence.

Mr W has a combined farm insurance policy underwritten by UKI. He made a claim in 2024 after a named storm caused damage to both his home and a farm building.

UKI accepted the claim and paid for repairs to Mr W's home. However, they said Mr W wasn't adequately insured for his farm buildings. And so, they paid 36.35% of the total claim costs of £29,472. After deducting the excess this came to £8,213.07.

UKI said Mr W had taken out insurance for all the farm buildings on the property. And their loss adjuster had calculated the reinstatement costs for all the farm buildings to be around £983,400. Whereas Mr W has declared a sum insured of only £357,441 when he bought the policy.

Mr W complained to UKI about the claim settlement. He said that he'd bought the policy through a broker - and had no intention to insure all of the farm buildings on the property, only those which the broker considered suitable to be insured through UKI.

UKI didn't uphold Mr W's complaint, so he brought it to us. Our investigator looked into it and thought UKI had acted unfairly.

She was aware that the broker had admitted a small degree of underinsurance for the farm buildings which they and Mr W *had* intended to be covered – and paid Mr W £5,600 to account for that. Taking that into account, she said UKI should now pay Mr W the remainder of the repair costs - £13,158.93.

She also thought UKI should pay Mr W £1,000 in compensation for the trouble and upset he'd experienced as a result of their errors and/or omissions.

UKI disagreed and asked for a final decision from an ombudsman.

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.

UKI are – or should be – well aware of our approach to issues of underinsurance. So, they will know (or should know) that where a policyholder *is* underinsured, we believe the remedy (assuming a policy would have been offered) is for the insurer to calculate a proportional

settlement based on a comparison of the premium actually paid versus the premium which ought to have been paid.

In this case, UKI have seemingly calculated the settlement by comparing the sum insured to the sum which ought to have been insured. We don't think that's a fair way to calculate a settlement in these cases.

So, UKI's settlement of this claim would be unfair in any case, even if we thought Mr W was legitimately underinsured and UKI were entitled to apply a remedy. That, however, is a moot point because I agree with our investigator – I don't think UKI can, in the circumstances of this case, fairly apply a proportional settlement (beyond the shortfall that's already been made up by the broker). I'll explain why.

In order for me to agree that a proportional settlement (over and above the shortfall already accounted for by the broker) was fair and reasonable in this case, UKI would need to show (on balance) that the following statements were true.

- One – the sum insured given my Mr W and/or the broker at the time of inception and/or renewal was not a reasonable estimate of the true reinstatement costs for the insured buildings.
- Two – the reinstatement costs calculated by the loss adjuster were reasonable, in all the circumstances.
- Three – the premium would have been affected (and been higher) if UKI had known the true reinstatement costs (the sum insured).

I'll quickly say that UKI have provided evidence that the third statement above is true. *If* their loss adjuster's calculations are correct (and the sum insured should be £983,400), then unsurprisingly the premium would have been higher.

And it's not in dispute here that the first statement above is true. The broker has admitted their fault in underestimating the sum insured. They've accounted for that in the payment they've made to Mr W, which was calculated based on their estimation of the reinstatement costs for the buildings which they and Mr W say they intended to be covered by the policy.

In effect, UKI had a remedy here because Mr W was underinsured. It's Mr W's argument – and his broker's – that the remedy was for UKI to pay £5,600 less than the full repair costs. That's the amount the broker has already paid to Mr W to reflect their error.

So, whilst the first and third statements above are true, they both lead us to the second statement in the list. The key issue here, which remains in dispute, is what the true sum insured ought to have been.

UKI haven't provided any real evidence as to how the loss adjuster got to the figure of £983,400. For instance, we don't have any explanation of which buildings (and/or how many buildings) have been taken into account in reaching that figure.

If we can't reasonably and fairly pin that figure down relatively accurately, it's difficult to see how UKI can embark on a reliable calculation of a proportional settlement.

And if we can't see how the loss adjuster's figure was arrived at in any detail – through a list of buildings and reinstatement costs for each - then it's impossible for Mr W to challenge or verify that figure. And that's unfair to Mr W, in my view.

I believe all parties would accept that if the intention was in fact to cover every single building on the property, Mr W is underinsured (to a greater extent than his brokers have already admitted).

Mr W and his broker tell us that wasn't the intention. I have no reason to disbelieve them, on the face of it. Some of the buildings weren't of standard construction - and it's not unreasonable to think that Mr W and his broker believed that some or all of those buildings weren't insurable – and so weren't intended to be covered by the policy.

There is no doubt that when the broker bought the policy on Mr W's behalf, they said they wanted to cover "all" the farm buildings (which, because of the way the on-line journey worked, meant they didn't then have to specify a number of buildings to be covered – which is unfortunate, to say the least, in terms of resolving this dispute now).

On balance, I don't think it's unreasonable to assume that when the broker asked for "all" buildings to be covered, they may reasonably have had in mind the buildings of more standard construction, which were in fact insurable – and not the other buildings on the property.

Mr W is certainly adamant that what he requested was cover for *some* of the buildings. And, as UKI themselves have pointed out, the broker stated that all the buildings to be covered were of "standard construction".

If we're left without any absolute certainty on this point, that's likely because of the (arguably small and relatively unforeseeable, to be fair) ambiguities in the inception process. It would be difficult in those circumstances for me to fairly and reasonably conclude that Mr W's and his broker's intention was to have the non-standard (uninsurable) farm buildings covered by the policy.

UKI have accepted that some of the buildings on the property were likely uninsurable – and wouldn't have been covered by the policy in any circumstances.

It seems nonetheless that those buildings may have been taken into account when the loss adjuster calculated the true reinstatement costs of all the buildings on the property.

That appears to be UKI in essence wanting to have their cake and eat it. Buildings X, Y and Z would never have been covered. But we'll nonetheless include them in a calculation of the true reinstatement costs (for the buildings on cover).

So, in summary, I don't think UKI can reliably calculate a proportional settlement here, because there is no reliable base figure - for what *ought to have been* the sum insured - from which to take those calculations.

When they responded to our investigator's view on this case, UKI appeared – amongst other things - to give us a number of reasons why they might not have offered cover at all had they known the facts at the time of inception.

They said, for instance, that a previous insurer had declined to cover certain buildings on the property, but they weren't told this at inception. They said the broker said the buildings were all of standard construction (see above) – and were well-maintained.

Whilst I can see UKI's points here, I'm sure they'll agree on reflection that there are two possible explanations. One – an egregious misrepresentation of the facts on inception (the motivation for which – on the broker's part - would be difficult to fathom). Or two, a perfectly accurate representation *if* the intention was to obtain cover for some of the farm buildings (those that were insurable and well-maintained) but not for others.

As I've said above, I think on balance it's not unreasonable to assume that cover was intended for some of the farm buildings but not for others. I realise there are arguments either way, but I think it's most likely that Mr W wanted to cover his sound and well-maintained buildings (of standard construction) only.

In any case, UKI accepted the claim and settled it – albeit proportionally. It's a bit late in the day, after we've investigated the case and our investigator has offered a view, to put forward arguments to say UKI wouldn't have offered cover had they known the facts. If UKI really believed those argument to be persuasive, it's difficult to see why they settled the claim on the basis of underinsurance in the first place.

Putting things right

There are two possible ways, in theory, to require UKI to put things right for Mr W (leaving aside compensation for trouble and upset, which I'll come back to below).

One has already been suggested by our investigator – UKI pay the shortfall in the claim costs (£13,158.93, with interest at 8% simple, calculated from the date of the original settlement).

Alternatively, I could - in theory - give UKI time to carry out a full and detailed assessment of the property. The aim being for UKI to work out which buildings would have been covered (were insurable, in other words), and what the reasonable reinstatement costs for those buildings are (in some detail). That would then give them a basis from which to properly calculate the proportional settlement to be paid to Mr W.

On balance, I think that would be unfair to Mr W. His claim and complaint have been outstanding for some considerable time now. His property is at risk of further damage, and he's been unable to have any finality about the outcome of his claim. And on balance, I think that's because of errors UKI have made in not settling his claim in a fair and reasonable manner.

It's also true to say that UKI have had ample opportunity – whilst the claim was on-going and when the settlement was then disputed by Mr W – to carry out that detailed assessment at the property, rather than rely on what appears to be a fairly unsubstantiated and certainly undetailed (as far as we can see from the evidence we have) estimate of reinstatement costs by their loss adjuster.

So, I'm going to agree with the outcome suggested by our investigator and require UKI to pay the remaining shortfall in the full claim costs (with interest, as set out above).

Turning now to the compensation for trouble and upset, I again agree with our investigator's view. I'll explain why.

Mr W has been unable, for an extended period, to repair the damaged farm building. That has caused considerable inconvenience and disruption to the way in which he goes about his day-to-day activities. But for UKI's errors in the handling of his claim, Mr W's building would have been repaired much sooner.

Mr W has also experienced substantial distress and upset as a result of UKI's handling of his claim. Not knowing whether and how the situation would be resolved - and whether he would be able to repair the building – has undoubtedly been very stressful (over an unnecessarily lengthy period of time).

Mr W has also been frustrated by UKI's errors in handling the claim and their unwillingness to take into account his position and arguments. He's had to spend considerable time on the claim and in engaging with UKI in the attempt to get to a satisfactory resolution.

Taking all of that into account, I agree with our investigator's view that £1,000 would be fair and reasonable compensation for the trouble and upset Mr W has experienced as a result of UKI's errors and omissions in the handling of his claim.

My final decision

For the reasons set out above, I uphold Mr W's complaint.

U K Insurance Limited trading as NIG must:

- pay Mr W a further £13,158.93 in settlement of his claim;
- pay him interest at 8% simple per annum on that amount, calculated from the day of the original settlement payment to the day they make this further payment; and
- pay Mr W £1,000 in compensation for his trouble and upset.

If U K Insurance Limited trading as NIG 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 he asks for one, so he 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 25 July 2025.

Neil Marshall
Ombudsman