

The complaint

Miss V complains about Accredited Insurance (Europe) Ltd's handling of a claim made under her home insurance and about their settlement offer.

What happened

The background to this complaint is well known to both parties, so I'll provide only a brief summary here.

Miss V has a home insurance policy underwritten by Accredited which covers her property and its contents, amongst other things.

In March 2021, she made a claim when her property was damaged as a result of an escape of water from a burst pipe.

In short, after carrying out some investigations, Accredited voided Miss V's policy, from inception in 2020.

Miss V made a complaint to us about this. We issued a final decision requiring Accredited to reinstate the policy and deal with the claim.

Accredited did exactly that. And in late 2023, they advised Miss V she was significantly underinsured.

Miss V had declared a rebuild cost for the property of £400,000 at inception. Accredited said the true rebuild value was £785,275. Miss V's cover was therefore only 52.9% adequate. So, they were offering a settlement of the claim at 52.9% of the total claim value.

Miss V complained to Accredited about the underinsurance point – she says she was advised that the rebuild cost she declared was reasonable - and about delays in progressing the claim.

Accredited accepted that the claim hadn't been progressed as quickly as it might have been. And they offered Miss V £75 in compensation for the trouble and upset this had caused. But they said she was underinsured, and they were therefore entitled to settle the claim on a proportional basis.

Miss V wasn't happy with this and brought her complaint to us. Our investigator looked into it.

He initially thought Accredited had calculated the settlement on an "average" basis - comparing the rebuild cost declared by Miss V to the actual rebuild cost.

Accredited then said they had in fact calculated the underinsurance based on a comparison of the premium Miss V actually paid against the premium she ought to have paid had she declared the true rebuild cost.

On that basis, our investigator agreed that Accredited had made a fair and reasonable

settlement offer. However, he thought the £75 compensation offered by Accredited for the claim delays was too low. He suggested Accredited should pay Miss V £500 in compensation for her trouble and upset.

Miss V disagreed and asked for a final decision from an ombudsman. So, the case was referred to me.

I agreed with our investigator that the complaint should be upheld. But I took a different view about what Accredited need to do to put things right for Miss V.

So, I issued a provisional decision. This allowed both Miss V and Accredited an opportunity to provide further information or evidence and/or to comment on my thinking before I make my final decision in this case.

My provisional decision

In my provisional decision, 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 delays

Accredited admitted in their response to Miss V’s complaint that there had been avoidable delays in the handling and progression of the claim.

Miss V was always going to suffer a degree of stress, upset and inconvenience as a result of the escape of water in her home. Given the nature of the event, that trouble and upset would be considerable.

So, I have to bear in mind that any unnecessary delay increases the time period over which Miss V is experiencing considerable inconvenience, alongside the stress of not knowing how and when that damage will be rectified.

That being the case, I’m minded as things stand to agree with our investigator that £500 is fairer and more reasonable compensation than the £75 Accredited offered.

Underinsurance?

Even accounting for inflation over the relevant period, Miss V’s estimate of the rebuild cost for her home is significantly out of line with the true rebuild cost.

Miss V bought her policy using a comparison website. Looking at Miss V’s journey when purchasing the policy, I’m satisfied that it was clear what was required when Miss V was asked to declare the rebuild cost.

More importantly, Miss V rang the broker the day after she bought the policy on-line. I’ve listened to the recording of that call.

Without going into detail, it’s absolutely clear that Miss V made the call because she was unsure whether the rebuild cost she’d declared was accurate. She openly admits she was unsure how to estimate that cost.

The broker is clear in the call that he can’t advise Miss V about what rebuild cost to declare. He points Miss V towards the relevant cost calculator websites (more than once). And suggests that if that doesn’t help, she might need to ask an architect or

surveyor – or an experienced builder.

Miss V asks whether the premium will increase if she declares a higher rebuild cost – and the broker confirms that would be the case.

The call concludes with Miss V telling the broker she'll carry out further enquiries – including asking a family member who is a builder – and she'll call again if she needs to increase the rebuild cost on the policy.

There's no further contact after that call as regards the rebuild cost. Miss V leaves the rebuild cost as it was.

I'm satisfied then that Miss V is underinsured – and that she carelessly misrepresented the rebuild cost for her property when she bought the policy. If she had checked the rebuild costs, as she promised, she could not have arrived at a value of £400,000.

That being the case, Accredited are entitled to settle the claim proportionately. And they would do so by comparing the premium Miss V paid to the premium she ought to have paid had the true rebuild costs been declared.

The extent of the underinsurance

Accredited have admitted that they used the wrong rebuild cost to calculate the extent of the underinsurance in this case. The rebuild cost calculated by their loss adjuster was £755,000, not the £782,275 Accredited used in their later calculations.

This may not matter (see below). However, if Accredited do eventually settle this claim proportionately, I'd expect them to recalculate the settlement figure based on a rebuild cost of £755,000.

I say it may not matter because as things stand - and unless I get further information or evidence in response to this provisional decision which persuades me to change my mind – I'm minded to require Accredited to pay the claim in full. I'll explain why.

Our investigator initially thought Accredited had calculated the proportional settlement offered to Miss V by comparing the declared rebuild cost to the actual rebuild cost – rather than by comparing the premium paid to the premium which should have been paid (as per the remedies for misrepresentation set out in the Consumer Insurance (Disclosure and Representations) Act, or CIDRA).

That's understandable because the maths confirms that 52.9% is exactly the proportion you arrive at if you compare the declared rebuild cost to the true rebuild cost.

When we asked Accredited to explain this seemingly unlikely coincidence, they pointed out that they set premiums based directly – and solely – on the declared rebuild cost. The premium charged to their customers for this kind of policy is calculated (solely and entirely) as a percentage of the rebuild cost.

Clearly, that means that any calculation of underinsurance based on a comparison of premiums (premium paid versus premium the customer ought-to-have-paid) gives exactly the same result as a comparison of rebuild costs (declared versus actual).

On the face of it, that's an unusual way to calculate premiums, but Accredited are

perfectly entitled to decide how they set premiums for their customers.

We asked Accredited to provide evidence that their premiums are calculated in that way. We suggested this might be in the form of either their pricing algorithm and/or pricing structure guidance or process documents.

In short, we wanted to be sure that the premium they would have charged, based on a rebuild cost of £755,000, was in fact the £435.06 they said it would be – and that they used to calculate the extent of Miss V's underinsurance.

Accredited responded to say that due to the age and type of policy Miss V has, they have no evidence they can provide to show how the premium was calculated.

That puts us in a difficult position. As I've said above, I'm satisfied Miss V carelessly misrepresented the rebuild cost for her home when she bought the policy. That would mean that the remedies set out in CIDRA can be applied by Accredited and that they can settle the claim proportionately.

However, Accredited haven't provided any evidence to show that their calculations of the underinsurance are based on any reliable assumption about what Miss V's premium ought to have been had she declared a reasonable estimate of the rebuild cost.

To be blunt, they tell us that because the policy is of a certain age (I note inception was in 2020, less than five years ago) and type, they have no means of demonstrating how they would have calculated the premium – other than perhaps the memories of their staff, agents, or brokers.

I'm sure Accredited will appreciate why, in that case, I can't satisfy myself that their calculations are correct or indeed reliable.

And if the remedies set out in CIDRA can't be applied reliably in this case – because the inputs for the calculation of the proportionate settlement are in fact unknown or unreliable – then I can't satisfy myself that Accredited are entitled to carry out those calculations at all. In which case, I have no choice but to ask them to settle Miss V's claim in full.

I also want to manage Miss V's expectations at this stage. I'm sure she will understand that my provisional decision is based on the fact that Accredited haven't been able as yet to produce any evidence to prove how they calculated their customers' premiums, in 2020, for this kind of policy.

It is possible Accredited will now provide such evidence in response to this provisional decision. And if they do so, my decision may well change."

So, in summary, I said I was minded, as things stood, to require Accredited to settle Miss V's claim in full (without any proportion being deducted for underinsurance) and to pay her £500 in compensation for her trouble and upset.

The responses to my provisional decision

Miss V responded to say she agreed with my provisional decision that Accredited shouldn't make any deduction from the settlement for underinsurance.

She said she was in fact careful when declaring the re-build cost on her property. And that

other companies were offering unlimited cover for only £50 or so more on the premium – which she would have taken had she known that the declared sum insured might result in her being underinsured.

She also provided a list of costs which she thinks Accredited should cover as part of the claim settlement. These include utility costs at the property, council tax (increased due to the property being empty for a long period) and her accommodation costs. In respect of the latter, she was living in a property previously owned by her deceased mother but says he was paying rent of £1,000 per month to her siblings.

Accredited also responded to my provisional decision (through their managing agent). I'll try to summarise their arguments and information briefly here, but I'll return to them in more detail in the section below. In essence, they say:

One – having accepted that Miss V was underinsured it would be inequitable to require Accredited to pay the claim without a proportional reduction.

Two – because of the age and type of the policy, they can't now recreate the premium calculation through their online portal, because the rates applied in 2020 have been updated many times since then.

Three – nonetheless, they can be confident about the method and formula by which Miss V's premium was calculated because the managing agent's Head of Personal Lines Underwriter produced the premium re-calculations by reference to "*the historical data about similar sized risks at the time*" (their own words). And he is happy to sign an affidavit to that effect.

Four – we've misunderstood why the underwriters "*are solely relying on the VAR difference as being fundamental to the premium calculation*". (again, their own words – VAR means value at risk, in this case the re-build value).

Other factors (e.g. flood rating, fire rating, theft risk) would have impacted the premium, but they would remain the same regardless of the VAR, so it's only the difference in VAR that needs to be factored into the premium re-calculation.

Five – it is logical that if a policyholder is around 50% underinsured (I think they mean has a declared re-build value at around half the real re-build value, otherwise the point is entirely circular), then their premium would be around 50% of the amount it ought to have been.

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.

Miss V's response

I don't agree with Miss V that she was careful when declaring the re-build costs for her property, for reasons I explained fully in my provisional decision. The phone call with the broker suggests that she knew that value was too low – or at the very least needed to be checked.

The list of costs Miss V thinks Accredited should cover weren't raised as part of this complaint to Accredited, or indeed when Miss V brought this complaint to us. The complaint I'm considering here is that Accredited should not be allowed to settle Miss V's claim proportionally.

The claim is, obviously, still on-going. If Miss V thinks Accredited should cover the costs she mentions, she can raise that with Accredited as part of the claim (if she hasn't already done so).

Accredited haven't settled the claim as yet – so, they have not come to any (final) conclusion about whether to cover those costs. Once they do, Miss V can decide whether she's happy with the settlement. If not, she can make a further complaint to Accredited – and then bring it to us if she isn't satisfied with Accredited's response.

Miss V appears to want me to increase the compensation I'm suggesting in this case to cover those costs. That wouldn't be appropriate. The compensation is for the trouble and upset Miss V has been caused by any errors or omissions on Accredited's part.

Miss V is now outlining costs she believes she's incurred which ought to be covered by Accredited – that's a matter for consideration in settlement of the claim, and not a matter for compensation.

Accredited's response

I understand why Accredited would say it was unfair for me to require them to settle this claim in full when I am aware that Miss V was in fact underinsured. I'd ask them to understand that I wouldn't do this lightly. However, I'll try to explain my reasoning.

Accredited (and their agents) fully accept that if Miss V is underinsured, the remedies for misrepresentation (which is what this is) are set out in CIDRA. They fully accept that CIDRA allows them to settle the claim proportionally based on a comparison of the premium actually paid versus the premium which ought to have been paid.

Traditionally, claims might have been settled on the basis of what was known as an "average clause" in home insurance policies. This kind of clause basically said that where there was underinsurance, claims would be settled proportionally based on a comparison on the declared Sum Insured (re-build cost) versus the true re-build cost (what the Sum Insured ought to have been).

In our view, CIDRA takes away that option, in most if not all cases. It says very explicitly – and intentionally, we would argue – that insurers must, in these circumstances, calculate the proportional settlement based on a comparison of the premium paid versus the true premium (had the facts been known).

Here's what's happened in this case, in my opinion.

Accredited told us their settlement offer was based on the fact that Miss V was underinsured – and that she was covered only 52.9% adequately. So, they would pay that proportion of the full claim cost.

That percentage (52.9%) equates to the ratio of the declared re-build cost versus the actual re-build cost. In other words, it's the percentage you would get if you applied an average clause.

When we asked about that, Accredited told us they *had* in fact made the settlement calculation based on a comparison of the premium actually paid versus the premium that should have been paid (as per CIDRA) – not the declared re-build cost versus the actual re-build cost.

That appeared to us to be odd. Feasibly, that could only be the case if the premium were

calculated directly and solely as a proportion of the re-build cost. In which case, the comparison of premiums would get you to the same mathematical outcome as the comparison of re-build costs.

We asked Accredited – in March 2025 – to give us *evidence* to show that their premiums were in fact calculated in that seemingly unusual way.

In response, they simply re-stated the calculation. They said the premium based on the declared re-build cost (£400,000) was £230.50 – and the premium based on the true re-build cost (£785,275 – which turned out to be slightly higher than it ought to have been, as Accredited have now admitted) would have been £435.06. So premium adequacy, as they put it, was 52.9%.

They went on to explain:

“There is a direct correlation between the VAR and the premium because the premium is calculated based on X pence: £VAR.”

And they said the rate the underwriter uses (the amount of pence on the premium per pound of the VAR) was 0.05762% or 0.054% - the letter for properties with a VAR over £500,000.

We went back to Accredited at the end of March 2025, after receiving that response. In essence, we said - okay, we get it, you calculate premiums solely as a proportion of VAR – unusual, but that’s up to you – but can you please provide *evidence* of that (as we asked previously).

Accredited said that due to the age and type of the policy, they had no such evidence. We took that to mean that we were being told that, for policies sold in 2020, Accredited could not produce any algorithm, any instructions to the person who programmed the algorithm, or any internal guidance or procedural documents which would set out the equation underlying premium calculations at the time. In essence, there was no audit trail to explain how premiums were calculated in 2020.

That led to me issuing the provisional decision above. In which I again invited Accredited to provide any *evidence* to show the way the premium would have been calculated in 2020. And in which I was as clear as I could be that a failure to do so would likely lead to me upholding the complaint and requiring them to settle the claim non-proportionally.

If it weren’t clear already, let me say again why I gave that warning. CIDRA allows insurers certain remedies in cases of underinsurance. In this case, the remedy is to settle the claim proportionally based on a comparison of the premium paid versus the premium that should have been paid.

If Accredited are to rely fairly and reasonably on that remedy, then they absolutely need to be able to show definitively – and with supporting evidence - how the premium would have been calculated had they known the true re-build cost at the time of inception.

And Accredited have failed to do that, despite being given at least three very clear and explicit chances to do so.

That being the case, I can’t justify saying that it’s fair and reasonable for Accredited to apply a proportional settlement. That’s because they themselves tell me they have no means of showing how the premium would have been calculated, in 2020, had Miss V given them an accurate re-build cost. They can’t fairly apply the remedy, in other words, because they don’t have the necessary tools (or information) to do so.

In their response to my provisional decision, Accredited (through their agent) ask me again to simply trust the account given by the agent's senior underwriter. And they say we can be confident in the premium re-calculation he carried out because he has access to "*historical data about similar sized risks at the same time*".

And yet, Accredited haven't shared that data with us. Nor have they given any account of how the senior underwriter can come to any safe conclusions about the premium calculation in 2020, despite having no access to any document / algorithm / guidance - or any combination of the above - which would allow him (or indeed the rest of us) to be able to carry out, or indeed check, that re-calculation.

Furthermore, the senior underwriter was consulted prior to Accredited's response to our request for evidence in March 2025. He provided the (simple) calculations, which then led to Accredited giving us assurances that the premiums (in 2020) were calculated very simply as a proportion of the re-build cost (or VAR).

The agent for whom the underwriter works responded to my provisional decision on behalf of Accredited. They now tell us that the premium calculations would have included other factors (flood rating, fire rating, theft risk and so on), so we have misunderstood their earlier responses.

At the outset, I would have expected the calculation of premiums to include all of the factors mentioned in the response to my provisional decision – and more besides. That's why we found it so odd that Accredited were telling us that the premium was calculated as a very simple proportion of the re-build cost.

I've directly quoted Accredited's response to our March request above. There is nothing to misunderstand. We were told the premium calculation was performed by taking a simple proportion of the re-build cost (X pence added to the premium for each pound of the VAR). I can't square that with what we're now being told.

It's not entirely clear, but I *think* the response to my provisional decision attempts to say that other factors are taken into account when calculating the premium, but they'll always be the same (for that property address presumably). So, the only moving factor is the re-build cost – so the proportion that re-build cost moves by can be taken to be the proportion the premium would move by.

That isn't what we were told previously. It also makes very little mathematical sense. If the whole premium is calculated by taking, say, ten factors into account – and one of those factors is variable – then the variable factor moving isn't going to move the whole premium by the same percentage – it will move it far less the more (static) factors there are.

In summary, we've asked Accredited on several occasions to provide evidence to support their assertion that the premium Miss V paid was directly proportional to the re-build cost. And/or that therefore their calculations about the extent of Miss V's underinsurance were reliable.

Accredited haven't provided that evidence, on the basis that it doesn't exist – despite Miss V's policy inception being relatively recent (2020).

That being the case, they cannot fairly apply a remedy (set out in CIDRA) which requires them to reliably compare the premium paid to the premium which ought to have been paid.

In fact, Accredited (or their agents) have at different times provided what appear to be logically contradictory accounts of how the premium would have been calculated. And that

doesn't inspire any confidence in their non-evidenced accounts about what the premium would or should have been.

So, Accredited's response to my provisional decision doesn't provide the evidence we'd asked for. Nor does it change my mind about the outcome of this complaint.

Putting things right

I set out in my provisional decision what I was minded to require Accredited to do to resolve this complaint fairly for Miss V.

I haven't been given any persuasive reason to change my mind by the responses to my provisional decision from Miss V and Accredited. So, I'll set out again below what I'm going to require Accredited to do to put things right for Miss V.

My final decision

For the reasons set out above, and in my provisional decision, I uphold Miss V's complaint.

Accredited Insurance (Europe) Ltd must:

- settle Miss V's claim in line with the remaining terms of the policy, without any proportional reduction based on underinsurance; and
- pay Miss V £500 in compensation for her trouble and upset.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss V to accept or reject my decision before 30 May 2025.

Neil Marshall
Ombudsman