

## **The complaint**

Mr E complains Aviva Insurance Limited (Aviva) required him to include VAT as part of the sum insured on his home insurance policy.

Mr E is being represented in this complaint, but for ease I will refer to Mr E throughout.

## **What happened**

The events of this complaint will be well known to all parties and so I've summarised events. Prior to the renewal of Mr H's home insurance policy in October 2023, Aviva asked Mr E to provide it with a copy of a rebuild cost assessment he had carried out in 2021. After Mr E provided this, Aviva told Mr E the sum insured should be around £1.8 million and this amount included VAT on all elements of the rebuild.

Mr E didn't believe this was correct as the construction of a new private dwelling is zero rated for VAT. He said his broker challenged this with the insurer, believing the correct sum insured should have been around £1.5 million but the policy renewed with the sum insured at around £1.8 million.

In 2024 Mr E's policy was due to renew, and the sum insured was set at around £1.85 million. Mr E raised a complaint with Aviva about the sum insured. He said it was unreasonable for the sum insured to be set including VAT on the rebuild value. He said this meant the sum insured was set at a value that could never be reached in the event of a total loss of his property. Therefore, he thought he had had been over-insured and had paid more premiums than he should have done.

On 4 November 2024 Aviva issued Mr E with a final response to his complaint. It said it would require VAT to be included on the sum insured as the vast majority of claims made were for a partial loss of property, for which the policy would cover the VAT element of that repair. It said its underwriters were taking this stance to ensure Mr E wasn't underinsured and Mr E was under no obligation to accept the quote Aviva had offered for renewal. Mr E didn't think this was reasonable and so referred his complaint to this Service.

Our investigator looked into things. He said he thought Aviva including VAT on the rebuild cost of Mr E's property meant he was adequately insured in the event of a partial or total loss. He said he hadn't seen evidence Mr E had been treated differently to others in his situation and Aviva had treated Mr E fairly.

Mr E didn't agree with our investigator. He provided a detailed response but in summary he said:

- The policy explicitly required him to insure for a sum required to rebuild the property as new.
- There is a settled approach amongst insurers that VAT should not be included in the rebuild cost of a private dwelling house.

- Whether the insurer needs to pay VAT on partial losses isn't relevant as the sum insured relates to rebuilding the property as new.
- In the event of a large partial loss, the insurers would have the option to rebuild the property as new and so there isn't a scenario where the insurer will be liable for a sum greater than the sum insured.
- The unfairly increased sum insured has unfairly increased the premiums he has paid.

Our investigator didn't change his view on the complaint. As an agreement couldn't be reached, the complaint has 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.

I want to acknowledge I've summarised Mr E's complaint in less detail than he's presented it. I've not commented on every point he has raised. Instead, I've focussed on what I consider to be the key points I need to think about. I mean no discourtesy by this, but it simply reflects the informal nature of this Service. I assure Mr E and Aviva I've read and considered everything that's been provided.

Mr E is unhappy Aviva have said he needs to include the VAT element of the rebuild cost of his property within the sum insured. And so, what I need to consider here is whether it is reasonable for Aviva to require VAT to be included as part of the sum insured, and whether it made this requirement sufficiently clear to Mr E.

I appreciate Mr E has provided evidence from insurance professionals and other insurance companies outlining whether they believe VAT should be included as part of the sum insured. However, I don't think whether these insurance professionals believe VAT should be included or not, or how other insurance companies choose to underwrite its policies is necessarily relevant here. What's relevant is whether it's reasonable for Aviva to require VAT to be included within the sum insured.

Ultimately, Aviva's decision to require the sum insured to include VAT is a business decision it is entitled to make, and not one I intend to interfere with. I acknowledge Mr E disagrees with the position Aviva have taken and its reasons for doing so, however I'm satisfied this is Aviva's decision to make.

I've considered whether Mr E was made aware Aviva required VAT to be included as part of the sum insured. The terms of Mr E's policy are silent around VAT needing to be included as part of the sum insured, however based on the evidence provided, I'm satisfied Mr E was aware Aviva included VAT as part of the sum insured prior to taking out the policy in October 2023.

In his submissions to this Service Mr E has said he was aware Aviva required VAT to be included as part of the sum insured prior to taking out the policy in October 2023. He said this was something he raised with his broker at the time and his broker confirmed the insurer's stance was to include VAT on the sum insured. So, regardless of the clarity within the policy terms, I'm persuaded Mr E was told Aviva required VAT to be included within the sum insured, and took out the product with this knowledge. This was also the case at the October 2024 renewal. If Mr E disagreed with Aviva's decision to require VAT be included within the sum insured and the subsequent impact this may have had on his premium, he had the opportunity to seek a policy elsewhere.

As I'm satisfied Aviva is entitled to require VAT be included as part of the sum insured, and Mr E was aware of this requirement before taking out the policy with Aviva, I don't think it has made an error, and don't require it to take any further action in relation to Mr E's complaint.

### **My final decision**

For the reasons I've outlined above, I don't uphold Mr E's complaint about Aviva Insurance Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 31 July 2025.

Andrew Clarke  
**Ombudsman**