

The complaint

Mrs J is a sole trader trading as J. She complains HCC International Insurance Company Plc turned down a claim she made on its business interruption insurance policy.

What happened

Mrs J owns a property which comprises three units. Two are used as holiday lets with the main house being used by Mrs J as a second home. Mrs J says she intended to let that property from 29 March 2024. However, towards the end of January 2024 (prior to the property being advertised for let) there was a leak which caused damage. Mrs J says she expected that work would be finished before the property was due to be let but it wasn't completed until mid-June. A complaint about delay by HCC in carrying out that work is being separately considered by our service.

Mrs J claimed on her business interruption policy for loss of revenue for the period from 29 March until the start of August when the property was let. HCC turned down the claim. It said as the main house hadn't previously been let there were no comparable figures for income for previous years. Nor were there any bookings that had to be cancelled following the escape of water. It didn't consider Mrs J had shown she'd suffered a loss.

Our investigator accepted Mrs J had referenced evidence from her letting agent which forecast the revenue she'd receive for the main property for the relevant period. And that house had been occupied from the start of August 2024. However, there were no confirmed bookings from the end of March 2024. And there hadn't been any previous occupation or income generated from that property. She thought it was fair of HCC to turn down the claim.

Mrs J didn't agree. She provided detailed comments and in summary said:

- HCC was aware she was intending to let the main house from the end of March 2024 but hadn't said a claim for loss of gross revenue wouldn't be accepted for the first year because there were no figures for previous years. That approach wasn't in line with the terms of the policy which didn't include it in the definition of gross revenue.
- She'd provided evidence from the letting agent who confirmed the number of lettings which would have been expected in the relevant period and the gross revenue these would have generated. She drew attention to the expertise the agent had and its ability to accurately predict these figures as a result. And she said subsequent events supported that with the actual bookings achieved from when the property was let being in line with those forecasts.
- It wasn't possible to advertise the property for letting earlier because it needed to meet electrical safety standards which wasn't possible until the circuits and smoke alarms had been certified as safe. That couldn't take place until repair work had been completed.
- She drew attention to issues that had arisen after her claim to HCC had been made, the scope of the repair work that was deemed necessary and delays in carrying that out. She said those prevented the property from being let at an earlier date and thought without those delays it was likely the claim for loss of gross revenue would have been halved.

I issued a provisional decision on the complaint last month. In summary I said:

The relevant rules and industry guidelines say HCC has a responsibility to handle claims promptly and fairly. It shouldn't reject a claim unreasonably.

I've looked first at the terms and conditions of Mrs J's policy as it relates to business interruption insurance. That does cover an escape of water at the insured property and says where that "causes interruption of or interference with Your Business at the Premises We will pay You the amount of loss resulting from the interruption or interference caused by the Damage in accordance with the following...in respect of Gross Revenue the amount by which the Gross Revenue received during the Indemnity Period falls short of the Standard Gross Revenue as a result of the Damage"

The policy defines Gross Revenue as "the money paid or payable to the Policyholder for services rendered in the course of the Business". It doesn't contain a definition of Standard Gross Revenue but does say 'Loss of Gross Revenue' means "The actual amount of the reduction in the Gross Revenue received by You during the Indemnity Period solely as a result of Damage to Buildings".

HCC hasn't argued the business interruption claim Mrs J made isn't one the policy could, in principle, cover. The issue is whether she's been able to demonstrate a loss caused by the damage (so something that results from the escape of water). And I think a reasonable starting point in relation to that would be to look at revenue figures for the relevant period in the previous year to see how they compare to the period impacted by the damage.

However, that isn't possible in this case because at the point the damage occurred the main property hadn't been let out. So there are no previous figures to compare revenue against. HCC says that means Mrs J was unable to demonstrate a quantifiable loss. That's because as the property hadn't been operating as a business prior to or at the time of loss it hadn't been generating any revenue. So Mrs J didn't lose any income she would have otherwise received had the escape of water not occurred.

But that analysis doesn't take into account what Mrs J says she was intending to do which was to let the main property out. HCC hasn't questioned that was her intention and I haven't seen anything to suggest otherwise; in fact I understand when renewing this policy in early 2024 she changed the number of letting units from two to three. And once repairs to the property had been completed she did then let it out. I think it likely that, but for the escape of water, she'd have done that from the end of March 2024. So I think she has suffered a potential loss here. And the policy terms don't require that the previous year's figures are available in order for a claim to be paid; the definition of gross revenue references money paid or payable for services rendered and doesn't define Standard Gross Revenue.

However, I accept the absence of revenue figures for the previous year make it more difficult to establish exactly what the figure for Standard Gross Revenue would have been. And if Mrs J hadn't been able to provide any other evidence in support of her claim I think that would likely mean she hadn't done enough to show a loss here. But that isn't the case. Mrs J has provided us with evidence from the letting agent showing monthly projections for the expected revenue to be achieved from the main property. I find this persuasive given this is a nationwide business with significant experience in this area. Mrs J has also provided subsequent details of the lettings which were actually achieved once the main house was advertised and let. Those are in line with the agent's projections. I think that does support her position on the amount which would likely have been received in the relevant period if the property had been let. I'm unclear if this has been provided to HCC but it's clear from the correspondence I've seen that Mrs J offered to do that. So I think HCC had the opportunity

to take this into account.

As a result I don't think it was correct or fair of HCC to turn down Mrs J's business interruption claim on the basis she hadn't suffered a quantifiable loss; I think she has. So it will need to reconsider that claim in line with the remaining policy terms. That will reasonably include consideration of the evidence she's provided to determine the extent of that loss. Mrs J is also unhappy with the time taken to carry out the repair work at her property.

However, the handling of that claim under her building insurance policy is being separately considered by our service and isn't in itself something I'm considering in this decision. I recognise there may nevertheless be a question as to whether all of the claimed loss for gross revenue results solely from the damage caused by escape of water; Mrs J has argued at least some of that results not from the damage itself but from delay by HCC in carrying out the repair work. However, that's something HCC can take into account as part of its reconsideration of the claim. If Mrs J is unhappy with any subsequent decision it makes on this claim we could potentially consider that as a fresh complaint (once HCC had had an opportunity to do so).

I also think the incorrect decline of her business interruption claim will have caused Mrs J avoidable distress and inconvenience at what was already a difficult time when she was dealing with the ongoing repair issues at her property and had concerns about the impact of loss of revenue. I think it would be fair of HCC to pay her £250 in recognition of that.

Responses to my provisional decision

Mrs J accepted my provisional decision and provided further supporting information in relation to her claim.

HCC didn't agree. It said the policy covered interruption caused by an insured peril to the business. But in this case no business was being carried on when the damage occurred. So there was no interruption to that business the policy could cover. It drew attention to policy definitions which it believed supported its position on that. It accepted Mrs J might have been considering letting her property out but as that wasn't taking place at the time of loss there had been no business interruption and no loss of gross revenue as defined in the policy. So I need to reach a final decision.

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 appreciate when the damage occurred the main house wasn't being let. But, as I explained in my provisional decision, HCC's position doesn't take into account that Mrs J was going to do that. I don't think HCC are correct to say she was "*considering*" doing so. I explained in my provisional decision why I was satisfied that was something she was going to do and why, but for the escape of water, she would have done so from the end of March 2024.

HCC's position appears to be that it only covers business interruption where a business is already trading. I don't agree that's what its policy says. It's referenced the definition of 'Loss of Revenue' but it's 'Gross Revenue' that's relevant to the business interruption section of the policy. And, as I said in my provisional decision, the definition of 'Loss of Gross Revenue' (which HCC also referenced in its response) is "*the actual amount of the reduction in the gross revenue received by you in the indemnity period solely as a result of damage to the building*". The definition of gross revenue is "*money paid or payable for services rendered in the course of the business*".

In this case, for the reasons I've already explained, I'm satisfied Mrs J was going to let the main house out and would have done so but for an interruption to that business caused by an escape of water. That's a covered event under the policy which in my view has led to a reduction in the gross revenue she would otherwise have received. And that money would have been payable for services Mrs J provided but for the business interruption caused by the escape of water.

It's also not that unusual for a new business to encounter difficulties which prevent it trading. If HCC's intention was its policy wouldn't provide cover in those circumstances it would have been straightforward for it to make that clear. It hasn't done so. I think Mrs J could reasonably have thought this policy would provide cover for her circumstances. And it remains my view that it isn't correct or fair for HCC to decline to provide cover on the basis the letting of the main house hadn't started.

It would be entitled to do so if there wasn't evidence to show that business had suffered a loss following the escape of water. But I've already explained why that isn't the case here. In particular Mrs J has provided evidence from her letting agent about the expected revenue from the main property together with details of the lettings that were subsequently achieved.

It therefore remains my view that HCC needs to reconsider the claim in line with the remaining policy terms. That will reasonably include consideration of evidence Mrs J provides to determine the extent of that loss (she may wish to submit the further information she's given us about that to HCC so it can take this into account). HCC will also need to pay Mrs J £250 in recognition of the avoidable distress and inconvenience it caused her.

My final decision

I've decided to uphold this complaint. HCC International Insurance Company Plc will need to put things right by doing what I've said in this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask J to accept or reject my decision before 18 July 2025.

James Park
Ombudsman