

## **The complaint**

Mr and Mrs B complain about the way Zurich Insurance Company Ltd ('Zurich') settled a claim they made on their Residential Landlord insurance policy.

Mr B has acted as the main representative during the claim and complaint process. So, for ease of reference, I will refer to any actions taken, or comments made, as those of "Mr B" throughout this decision.

## **What happened**

Mr B held a Residential Landlord insurance policy underwritten by Zurich. He raised a claim for a damaged kitchen worktop. He said the damage couldn't be repaired and the whole worktop would need to be replaced. Zurich said the damaged worktop was a standalone item and they weren't responsible for replacing the undamaged units.

Mr B felt this was unfair because the original worktop was no longer manufactured, so he said he couldn't replace the damaged section without replacing the rest of the set. He was also unhappy about how Zurich had handled the VAT element of the claim and about various delays and mistakes in Zurich's settlement communications.

An Investigator looked at what happened and ultimately recommended the complaint should be upheld in part. She thought Zurich should pay 50% of the cost of replacing the undamaged section of the kitchen to avoid a loss of match. But that VAT should be reimbursed once Mr B provided an invoice for the completed works, in line with this Service's usual approach. The Investigator also felt the £250 compensation Zurich had previously offered for any inconvenience caused by their mistakes was fair and reasonable.

Zurich agreed with the Investigator's recommended outcome, but Mr B didn't in full. He said the VAT element should be settled to conclude the claim and said he'd provided a quote from a contractor which outlined this cost. Mr B asked for an Ombudsman to consider the complaint, and it was passed to me to decide.

I wrote to both parties and explained I was minded to uphold the complaint. I said I'd likely conclude this complaint was an example where it would be fair to depart from this Service's normal approach and to ask Zurich to include VAT in their settlement.

Mr B agreed with my initial thoughts, but Zurich didn't. They said it was standard across the industry to require VAT to be incurred and supporting evidence provided before reimbursement was made. They felt it would be unfair to other customers to deviate from this established process.

As both parties have now had the opportunity to respond to my initial findings, I've set out my final decision below.

## **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.

Having done so, I uphold this complaint.

The details of this complaint are well known to both parties, so I won't repeat them again here. Instead, I'll focus on giving the reasons for my decision.

Zurich agreed to some the recommendations the Investigator made as part of their review of the complaint. Zurich said they would cover 50% of the costs of replacing the undamaged kitchen unit. I've considered the reasons behind this, and I'm satisfied Zurich paying this produces a fair and reasonable outcome to this complaint point. This means don't intend to make an extended finding on this point beyond requiring Zurich to repay this. I also agree the compensation offered of £250 is fair and reasonable in the circumstances of this complaint.

Therefore, the remaining issue for me to decide is whether Zurich should pay the VAT element of the claim upfront to conclude, or whether it's right for Mr B to be refunded this sum upon completion of the works and submitting a VAT invoice. As the Investigator has correctly concluded, the usual approach this Service adopts is for an insurer to deduct the VAT element of a cash settlement and only reimburse this once the customer has shown they've paid it. This prevents an insurer paying VAT unnecessarily if works don't proceed, while still ensuring a customer isn't out of pocket in the end.

But in the circumstances of this complaint, I think it would be unfair for Zurich to withhold VAT. From the beginning of the claim, I'm satisfied Mr B has demonstrated his intention is to have the works completed. And I can see he's provided quotes which outlined the VAT portion of the claim. The VAT is over £700, which I think is a significant sum for a consumer to have to pay upfront. On balance, and in the circumstances of this particular case, I think it would be unfair to expect Mr B to finance this himself while waiting for reimbursement.

I've also considered Zurich's submissions around my approach being unfair to their other customers. But I'm satisfied my decision is based on the particular facts of this case and does not create a general precedent for all of Zurich's claims when dealing with VAT. Ultimately, I am required to decide what I consider to be a fair and reasonable outcome in all the circumstances of a particular case. On that basis, and in the circumstances of this specific complaint, I find that the fair and reasonable outcome is for Zurich to include VAT in their settlement without waiting for Mr B to finish the works and produce an invoice. I'm also satisfied my decision produces a fair and reasonable outcome in line with my requirement under DISP 3.6.1.

### **My final decision**

For the reasons I've set out, my final decision is that I uphold this complaint. I direct Zurich Insurance Company Ltd to:

- Pay 50% of the costs towards the replacement of the undamaged unit at £276.30.
- Pay the VAT figure of £746.
- Pay £250 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Mrs B to accept or reject my decision before 14 October 2025.

Stephen Howard

**Ombudsman**