

The complaint

Miss H complains Zurich Insurance Plc (“Zurich”) insist on settling her home insurance claim by cash settlement, which she says is not adequate. She also complains Zurich has stopped paying for her alternative accommodation costs.

What happened

Miss H is a leaseholder of her ground floor flat. The owner of the building has an insurance policy with Zurich. The policy was taken out, in part, for Miss H’s benefit.

In June 2022 there was an ingress of water into Miss H’s flat. Zurich accepted the claim and arranged for Miss H to stay in alternative accommodation while it undertook the repairs.

When Miss H’s property was stripped out, significant building defects were noted which meant Zurich was unable to complete the insurance-related repairs. There were a number of issues relating to building ownership which meant any planned building work didn’t go ahead. So, Zurich stopped paying the alternative accommodation costs. Miss H wasn’t happy with Zurich’s decision, so she complained.

Zurich responded to say it told Miss H the alternative accommodation costs would only be covered until September 2024. It said the building defects need to be repaired before any reinstatement works can commence. These are due to the construction and design of the building and so are outside Zurich’s liability. Zurich didn’t uphold the complaint and said its decision to make a cash settlement for the claim was reasonable since it wasn’t able to proceed with the repairs. Zurich offered Miss H £150 to apologise for the delays in dealing with her complaint.

Miss H didn’t agree and so she referred her complaint to this Service. Our Investigator looked into the complaint and concluded that Zurich hadn’t acted fairly. She said Zurich told Miss H it would offer her a cash settlement so she could arrange for the necessary repairs to be completed. However, Miss H’s home wasn’t ready for reinstatement works to be done due to the outstanding building defects. And this could mean a cash settlement offered now might not be sufficient when the works are completed. In respect of the alternative accommodation the Investigator said since Zurich hadn’t reached its limit of liability, so it should continue to cover the cost of the alternative accommodation until the limit is reached. She said Zurich should also pay reasonable costs to take into account the time it stopped making those payments in line with the terms of the policy.

Zurich didn’t agree. It said Miss H has no enforceable claim under the policy so its decision to pay any alternative accommodation costs to Miss H was fair and generous. Zurich said since it has no control over the repair of the property the Investigator’s outcome is unfair. It said it could have taken the position that the cause of Miss H’s loss is due to a defect in the property and declined to provide any cover at all.

In August 2025 I issued a provisional decision on this complaint, a copy of my findings is below:

“I’ve thoroughly read and considered the points and evidence both parties have put forward, but I’ve summarised the background of the complaint. This isn’t intended as a discourtesy and reflects the informal nature of this Service.

The crux of this complaint is whether Miss H is eligible for alternative accommodation under the terms of the policy. And whether it is fair for Zurich to now settle the claim Miss H made. Zurich’s policyholder took out the relevant policy for the benefit of Miss H as a leaseholder. The benefit being cover for damage to Miss H’s property. Miss H made a claim on the policy for water ingress and Zurich accepted the claim. I don’t believe this is in dispute.

The dispute arises from whether Zurich should provide Miss H with alternative accommodation under the terms of the policy while the repairs to the property are completed. Having carefully considered the policy and other evidence I’m not persuaded Zurich should. I think it’s unreasonable to ask Zurich to provide that indefinitely, given it is unable to carry out the works to Miss H’s home itself.

Zurich say the proximate cause for the provision of alternative accommodation is no longer the insured peril that Miss H claimed under. And I agree. The reason for Miss H’s home being uninhabitable now is the building defect that needs to be resolved before she is able to start any work to her home.

I can see Zurich tried to assist Miss H taking into account her personal circumstances to the best of its abilities. Particularly where alternative accommodation wasn’t covered under the policy once the building defects became known. So, I’m not upholding this part of the complaint.

I think Zurich should consider reinstating the alternative accommodation when the building defects are resolved and the repairs Zurich is responsible for are being completed.

Cash settlement

Zurich is unable to carry out the work that stems from the insured peril until the building issues are resolved. It says the only way it can settle Miss H’s claim is to provide her with a cash settlement. But I don’t think that’s fair because it doesn’t indemnify her.

The repairs Zurich are liable for cannot be completed until the building defects are resolved. And given the circumstances described by Miss H there doesn’t appear to be a timescale for those repairs to be completed or even an indication of when they might start. So, any settlement Zurich offers would only allow Miss H to complete the necessary repairs if she were to arrange them immediately. But she isn’t in a position to do that.

Miss H doesn’t want to accept a cash settlement, and I understand her position. If Zurich insist on a cash settlement then its offer should reflect the cost to Miss H of completing the work. That way it will put Miss H back in the position she was in before the loss or damage. But I don’t think this is a fair way to settle the claim as we know it’s unlikely to indemnify Miss H.

Instead, I think Zurich should commit to undertake the necessary work it is liable for, once the building defects have been resolved. Alternatively, any cash settlement should be deferred until the full scope of work and associated costs are known. Upon completion of the repairs to the building defects, Zurich should reassess and define the required work, ensuring that any cash settlement reflects the updated scope and covers the actual cost to Miss H of completing that work.

Impact on Miss H

I have read Miss H's testimony about the impact the whole matter has had on her and her son. I can see she's under a tremendous amount of stress and is having to try and deal with a number of stakeholders in order to try and get her home back into a habitable condition. I don't doubt the sincerity of what she says, and it's clear to me that her sole purpose in all of this is to be able to move back into her home. I appreciate the situation is not of her making. I can also see Miss H stayed with family for a long period and therefore has attempted to mitigate her loss where she can. I recognise the impact the matter has had on Miss H, and I empathise with the difficulties she has clearly faced. Unfortunately, circumstances are such that repairs to the home can't proceed until the larger defects are resolved, and those defects are not the responsibility of Zurich here, but another party.

I also understand the impact my decision will likely have on her personal circumstances. And I am sorry for that.

Given the circumstances, I would expect Zurich to take an active role in liaising with the parties responsible for the defects to ensure the necessary repairs are progressed without delay."

Responses to my provisional decision

Zurich were happy to accept the findings and outcome I said I intended to reach.

Miss H asked for clarification about my comments about the cash settlement. To confirm, I agree with Miss H that if Zurich cash settle the claim now, it is unlikely to properly indemnify her. I say this because any costs paid now may not reflect the actual cost of repair to Miss H at the point that she is ready to undertake the repairs. And that would be unfair.

Under the terms of the policy Zurich can choose how it settles a claim – it can carry out the repairs itself, or it can offer a cash settlement. I think Zurich should commit to undertake the necessary work it is liable for, once the building defects have been resolved. But should that not be possible any cash settlement it offers should be deferred until the full scope of work and associated costs are known. That is the only way Miss H will be indemnified under the terms of the policy.

I haven't told Zurich exactly what to do yet because we don't know the full details or timeline of the building repairs. Things could change once that work is finished. Giving Zurich the option to either carry out the repairs if possible, or to offer a cash settlement based on the updated scope of work, helps to make sure Miss H is fairly covered no matter what happens. And I think that's a fair and reasonable outcome here.

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 haven't been provided any information from either party which alters the findings set out in my provisional decision. So, the findings set out in my provisional decision are now that of this, my final decision.

Putting things right

In order to put matters right, I direct Zurich Insurance Plc to:

- Carry out the repairs it is liable for under the terms of the policy, once Miss H confirms

the building defect repairs are completed,

- Or delay any cash settlement of the claim until major works are completed. When settling the claim Zurich should scope the necessary work and provide a cash settlement based on the cost of the work to Miss H.

My final decision

For the reasons I've explained Zurich Insurance Plc should do what I have set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 16 October 2025.

Kiran Clair
Ombudsman