DRN-5835159

Financial Ombudsman Service

The complaint

Mr B complains about the way U K Insurance Limited, trading as NIG, handled a buildings insurance claim in relation to disturbance allowance payments.

Reference to NIG includes its agents and representatives.

What happened

The circumstances of this complaint aren't in dispute, so I'll summarise the main points:

- Following water damage in early 2024, NIG accepted a claim for damage to the buildings. Mr B moved out of his home and NIG agreed to pay him £800 per month as a disturbance allowance ("DA"), without asking him for evidence of expenditure.

- Around May 2025, Mr B asked NIG to increase the DA in line with the likely rental cost of his property. NIG said alternative accommodation ("AA") is covered under the policy and it would usually either provide the AA or reimburse the cost of AA evidenced by the policyholder. It would only make further AA payments if Mr B could show how much he was spending on AA and any associated costs. If he couldn't do so, it would consider paying a DA instead.

- Mr B questioned why the DA payments had seemingly been reclassified as AA payments. And why he was now being asked to provide evidence to support them, when he hadn't been before. He asked NIG to backdate the monthly DA payment from month six to £1,500 and to pay a monthly amount based on the rental cost, until his property had been reinstated. He also asked NIG to pay compensation for the way it handled the matter.

- NIG accepted it had inaccurately referred to an AA payment, when it had been a DA payment throughout. It apologised for this mistake. NIG said the DA would remain at £800 per month. It thought this was a fair amount because Mr B hadn't paid rental costs elsewhere.

- Our investigator thought NIG acted fairly. Mr B disagreed, so the complaint has been passed to me.

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.

When considering what's fair and reasonable in the circumstances I've taken into account relevant law and regulations, regulators' rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice at the time. Whilst I've read and taken into account everything said by both parties, I'll only comment on the points I think are relevant when reaching a fair outcome to this dispute. That's a reflection of the informal nature of this Service.

Scope of this decision

In short, around May 2025, Mr B asked NIG to pay an increased DA and compensation. So I'll limit my consideration to those points. I won't consider the DA after that time, or any other matters related to the claim, in this decision.

Disturbance allowance

I agree with our investigator that NIG acted fairly. I'll summarise the main points to explain my reasoning:

- The Insurance Conduct of Business Sourcebook ("ICOBS") applies to NIG when handling a claim. ICOBS 8.1.1 (1) says an insurer must handle claims promptly and fairly. And ICOBS 8.1.1 (3) says an insurer must not unreasonably decline a claim.

- The policy covers AA costs reasonably and necessarily incurred, whilst the property is uninhabitable due to damage insured by the policy. There's no dispute the property was made uninhabitable by damage insured by the policy. So, in principle, AA cover was available to Mr B.

- The policy doesn't cover a DA. Nonetheless, NIG offered one instead of AA. This is in keeping with usual good industry practice where:

    - AA is covered because the property is uninhabitable.
    - The policyholder doesn't want or need AA funded by the insurer.
    - They will likely face additional living costs because of the damage.
    - They will likely also face a degree of disturbance to their daily living.

- For example, damage to a kitchen may mean the property is uninhabitable. Despite this, the policyholder would prefer to stay at home rather than to move into AA. But they face additional costs of preparing meals due to the damage. A DA would usually be set at a level sufficient to cover such additional living costs.

- Or damage may mean the property is uninhabitable and the policyholder is willing and able to stay with friends or family for a nominal cost rather than move into AA funded by the insurer. A DA would usually be set at a level sufficient to cover that nominal cost.

- The purpose of a DA isn't to pay the policyholder the likely cost of AA if it were funded by the insurer, or the likely rental cost of the policyholder's property, or to compensate for loss of use of the property. It's broadly to indemnify the policyholder for any additional living costs incurred due to the damage and to recognise a degree of disturbance. The usual approach is for a periodical payment to be agreed without the need for receipts or other evidence – unless the policyholder says it's insufficient, in which case they may reasonably be asked to support a higher level of payment with evidence of costs for the insurer to consider.

- As the NIG policy doesn't cover a DA, it doesn't set out what it would pay for a DA. There are no rules or regulations that require a DA or set out how much a DA should be. Across the industry, it's common to see insurers pay £10-£25 per day, depending on the particular circumstances of the policyholder, with £15 typical.

- NIG paid Mr B £800 per month, which is at least £25 per day. So that's at the upper end of the scale of common DA payment levels. I haven't seen any evidence or suggestion from Mr B that he's faced additional living costs in excess of this amount.

- So I'm satisfied the DA has achieved its purpose and has been set at an appropriate level. If Mr B finds his additional living costs exceed the DA, or he would like NIG to fund AA, he's entitled to let NIG know, and I'd expect it to consider the matter further.

- Mr B has challenged the DA level for a number of reasons, but I don't consider any to be persuasive. I'll explain why.

- Mr B says the policy covers AA and/or loss of rent, with the latter being a 'notional loss of use indemnity'. The policy schedule shows the loss of rent section of the policy is 'not operative'. So the policy doesn't cover loss of rent at all.

- AA cover is for AA costs reasonably and necessarily incurred. Mr B hasn't submitted evidence of such costs. So there's no AA claim for NIG to consider. And that means the DA payments fulfil the AA cover in these circumstances.

- Mr B says the monthly payment was for loss of use of his home. And that loss of use should be measured at the likely rental cost. So, if he could have rented it out for £1,500 per month, that's what he should have received.

- I haven't seen any evidence to show NIG labelled the payment as one for loss of use of the home, such that Mr B could reasonably expect it to cover the likely rental cost. In February 2024, Mr B told NIG he was prepared to accept £800 per month as an alternative to AA. So it seems he was aware from the outset that the monthly payment was a DA with the general purpose I've described above – and not a payment to reflect the loss of use of his home or the likely rental cost.

- I've noted above there's no loss of rent cover. And AA cover is only for costs incurred. It's not for costs which *could* have been incurred, if for example Mr B had moved into a similar rental property, or what his property could have been rented out for. I've also explained the purpose of a DA – and that doesn't include an amount for loss of use. So there are no other mechanisms in this claim by which Mr B may receive a payment to reflect the loss of use of his home or the likely rental cost.

- That means, in the circumstances of this case, there is no way in which NIG could be responsible for paying Mr B for loss of use or the likely rental cost.

- NIG has accepted it made a mistake when it referred to an AA payment, rather than a DA payment, and it's apologised for this. Whilst I can see how that mistake may cause a degree of distress and inconvenience, I'm satisfied it didn't have a material impact. The mistake was soon corrected and the DA payments continued at a fair and reasonable level. In the circumstances, I don't see a need for NIG to go further than its apology and pay compensation.

- I'm satisfied NIG has acted in line with ICOBS, other relevant rules and regulation, the policy, and fairly and reasonably overall, in relation to the scope of this decision.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 13 February 2026.

James Neville
Ombudsman