DRN-5922000

The complaint

Following a claim for an escape water, Mr and Mrs R are unhappy that Lloyds Bank General Insurance Limited avoided their home insurance policy due to alleged misrepresentation and sought to recover some of the claim costs from them. They are also unhappy that when the claim ceased to progress, their home had been left in a state of disrepair due to what they consider was unnecessary damage to aid drying the property out.

What happened

The parties are familiar with the background to this complaint, so I don't intend to set it out in detail here. In summary, Mr and Mrs R took out a home insurance policy with Lloyds online in 2020. This renewed annually.

In early 2025, Mr and Mrs R unfortunately suffered a leak in the bathroom at their home. They made a claim to Lloyds which appointed contractors to strip out part of the bathroom and dry those areas of their home affected by the leak.

Lloyds' loss adjuster attended Mr and Mrs R's home after the initial work had been completed to scope the necessary repairs. During discussions with Mr and Mrs R, they mentioned part of the property being rented out on a short-term holiday let basis through a website run by a company that I'll refer to as 'A.'

Lloyds said this was significant as it didn't know this. And it said when taking out the policy, Mr and Mrs R were asked whether any part of their home, including outbuildings, was used for business, other than computer work, paperwork and phone calls by them and their family. They answered 'no' to this.

To a question asking whether or not anyone other than themselves and their family lived at the house, they answered that they had three lodgers. An endorsement was applied to the policy limiting the number of lodgers to four and excluding any claims for liability arising out of the fact that lodgers were staying there.

Mr and Mrs R provide short term overnight holiday lets of a self-contained converted garage room at their home, with its own access, but which forms part of the main premises insured by Lloyds. They do this using A's website, and on average it's occupied around 50 nights a year. They said this is what they meant when they declared that they had lodgers. They do not consider it to be a business, as it's not registered as such and doesn't attract business rates or taxes, being below what they've said is the legal limit for that.

Lloyds has said that Mr and Mrs R answered the question about whether any part of their home was used for business incorrectly and it considered they hadn't taken reasonable care when doing so. Lloyds says that many different guests staying in the standalone accommodation, let out for profit through an external provider such as A, can't be considered to be "lodgers." It says lodgers are generally understood to be much longer-term occupants of a room in a home living with the family.

In 2020 when the policy was taken out, Lloyds underwriting criteria would have provided cover for such a short-term letting business or a bed and breakfast. But in 2022, it changed what business use it was prepared to accept, and properties let out through A were no longer acceptable. Lloyds wrote to all customers with such businesses whose policies were renewing at the end of that year, to say that it would not be able to offer a renewal of cover.

But because Mr and Mrs R were not recorded as having a business, they did not receive such a letter and their policy continued to automatically renew until the claim in 2025.

Lloyds decided to avoid Mr and Mrs R's policy with effect from the 2022 renewal. It accepted that Mr and Mrs R had not intentionally misrepresented the situation at their home, but as this was not a risk that they would have accepted, it said that their premiums for the last three years would be credited to them. It then applied those premium credits to the costs incurred to date for the claim. This left a balance due of around £300, which Mr and Mrs R later settled under objection.

Mr and Mrs R complained to Lloyds about how they'd been treated when their policy was avoided and the claim wasn't paid. They also later complained about the damage that had been done to their bathroom when the toilet and the tiles were removed to trace the leak and aid drying. Lloyds didn't uphold their complaint about the policy avoidance, but it did say its contractors had gone too far with removing some of the bathroom tiles. It apologised for this, awarded £300 compensation, and has since arranged for those tiles to be replaced.

As Mr and Mrs R remained unhappy, they brought a complaint to us. One of our investigators considered the complaint but didn't think it should be upheld. She said that she didn't think Mr and Mrs R had taken reasonable care when failing to declare the lettings as a business. She appreciated that this wasn't intentional, but she didn't agree with Mr and Mrs R that a reasonable consumer would consider the type of activity they were undertaking at their home amounted to taking in lodgers.

She thought that letting out of part of their house through A was a business that should have been declared. If it had been, the policy would not have been on cover when the leak occurred and so Lloyds hadn't acted unfairly or unreasonably when avoiding the policy and refusing to pay the balance of the claim. She also considered it fair for Lloyds to have set-off the premium refund against the claim costs, and to have sought the balance from them.

With respect to the damage done to the bathroom through the strip-out works, she thought that Lloyds had acted fairly when it had accepted that more had been removed than was needed. She also thought its offer to pay £300 compensation and repair certain of the damage was appropriate redress.

Mr and Mrs R didn't agree and requested an ombudsman's decision. They believe that the questions asked of them weren't clear and that in answering that they had lodgers, they were not trying to hide anything, it just seemed to them the most appropriate category in the online application to describe what they did at their home. They consider that with the policy having been avoided and the need to now declare this to other insurers, they are being financially penalised through higher premiums for an innocent mistake, and that this has tarnished their reputation. So, the matter has come to me for review.

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'm sorry to disappoint Mr and Mrs R, but I'm afraid that I've reached the same conclusion as our investigator for substantially similar reasons. I do appreciate how upsetting this whole matter has been for them. And I understand how this will have had an immediate financial impact on them, as well as a longer term need to declare this to other insurers with the increased cost or availability of cover associated with that. But I'll explain below why I don't think that Lloyds has acted unfairly or unreasonably when acting in accordance with the law governing this area, which reflects our long-standing approach to this type of complaint.

The relevant law here is The Consumer Insurance (Disclosure and Representations) Act 2012 ('CIDRA'). This requires consumers to take reasonable care not to make a

misrepresentation when taking out a consumer insurance contract (a policy). The standard of care is that of a reasonable consumer.

If a consumer fails to take reasonable care, the insurer has certain remedies provided the misrepresentation is - what CIDRA describes as - a qualifying misrepresentation. For it to be a qualifying misrepresentation, the insurer has to show it would have offered the policy on different terms or not at all if the consumer hadn't made the misrepresentation.

CIDRA sets out a number of considerations for deciding whether the consumer failed to take reasonable care. And the remedy available to the insurer under CIDRA depends on whether the qualifying misrepresentation was deliberate or reckless, or careless.

Lloyds thinks Mr and Mrs R failed to take reasonable care not to make a misrepresentation when they didn't declare that part of their home was used for a business.

I've looked at the question asked and I think it would have been clear to a reasonable consumer that Lloyds wanted to know about any business carried out in any part of the property, other than pure administration. I consider the question to have been clear. Mr and Mrs R have argued that letting a self-contained part of their property out for an average of 50 nights a year was not a business. They were both employed full time elsewhere and this was more of a 'side-hustle.'

But I think a reasonable consumer would have considered this to be a business, even if Mr and Mrs R did not. The lettings would have been carried out using A's website and will have been with a view to profit, something that I expect that Mr and Mrs R will have needed to consider declaring for personal tax. I'm afraid I don't accept that because it wasn't set up as a separate business or registered for business rates or tax, this means that a reasonable consumer wouldn't have considered it to be a business. And that's the appropriate test here, not what Mr and Mrs R thought but what a reasonable consumer would have thought.

I accept that Mr and Mrs R did not intend to mislead Lloyds. But the legal test here is not one of intention, but whether reasonable care was taken to answer the question correctly. Mr and Mrs R did declare that they had lodgers residing with them. But I agree with our investigator that Lloyds is correct that a lodger is generally considered a longer-term resident of a home that they share with the hosting family. I don't think that this term can reasonably be applied to a significant number of different short-term guests sourced through A's website.

I understand that Mr and Mrs R believe that one of them spoke with Lloyds at the time the policy was originally taken out in 2020 and told them that they'd be making the property available to guests using A's website. But Lloyds have been unable to locate any record of that conversation. The evidence indicates that the policy was taken out online and with no record of such a conversation, I can't say that there's sufficient evidence to show this more likely than not took place. Mr R says that lodger is not a term he would have used. But that would have been a drop-down box for who lives at the property on the online form and is most likely why it ended up being recorded on their policy with the consequent endorsement.

So, taking everything into account, I've found that Mr and Mrs R didn't take reasonable care when answering the question about business use at their home. The answer given was incorrect and this then led to a chain of events that have sadly left Mr and Mrs R with an unpaid claim and a voided insurance policy.

Lloyds has provided evidence that it would not have renewed Mr and Mrs R's policy at the 2022 renewal in October that year. It changed its underwriting criteria in advance of then and has demonstrated that it would not have provided a policy where there was business use

consisting of short-term lets of part of the property, such as those undertaken through A. That means that I'm satisfied that the misrepresentation made was a qualifying one for the purposes of CIDRA.

If Lloyds had known that this type of business use was being undertaken at Mr and Mrs R's home, I'm satisfied that it would have flagged up on its systems and this would have led to them being informed before the 2022 renewal that it would no longer be able to offer cover. As the policy would not have been renewed over the subsequent years, there would have been no policy through Lloyds in place at the time the unfortunate leak too place in Mr and Mrs R's bathroom.

Lloyds has accepted that the failure to declare business use wasn't intentional. So, it's dealt with this as a case of careless misrepresentation under CIDRA. I agree with that position. I appreciate that Mr and Mrs R think that it's not fair or reasonable for Lloyds to have taken the stance that it has, based on this being a question of interpretation of what the activity that they were carrying out at the property amounted to. But given my findings about whether or not reasonable care was taken here and my decision on what a reasonable person envisaged by CIDRA would have thought, I don't consider it unfair or unreasonable for Lloyds to have decided this was careless misrepresentation.

On the basis that I think this was careless misrepresentation, I've looked at what actions Lloyds has taken in accordance with CIDRA. It's unfortunate that the business use only came to light after the initial strip out and drying works had started. That meant that there's also been a dispute as to the extent of the work done and whether it was all required.

Lloyds has chosen to avoid Mr and Mrs R's policies from the October 2022 renewal onwards. That means it's treated them as though they didn't exist from the first renewal after its underwriting criteria changed. I consider that to be fair here. Prior to that, Mr and Mrs R's risk would have been acceptable, so the two policies before then were valid and should have paid out if a claim had been made. Lloyds has also credited the premiums that Mr and Mrs R have paid for the post October 2022 policies to the sums that it had already spent on their claim before the business use became known. I don't consider that to have been unfair.

I appreciate that there was a dispute about the extent of the strip out work. Our investigator found that the resolution offered by Lloyds with respect to that was fair. This was to reinstate those tiles that had not been recommended for removal by the drying contractor and to pay £300 for the upset and inconvenience that this had caused. I consider that to be fair too. It's apparent that drying was needed here, and some of the damage done will likely have been necessary in order to trace and access the leak for repair in the first place. So, I don't consider that Lloyds need to do anything more here.

After applying the credited premiums and the policy excess that Mr and Mrs R had already paid, this left a balance of £300 odd for the claim costs that Lloyds had by then incurred. I don't consider it unreasonable for Lloyds to have asked Mr and Mrs R to pay this, which I understand that they now have. Those were costs that would likely have had to be incurred anyway when repairing the property.

I do empathise with the situation in which Mr and Mrs R have found themselves. A simple mistake has led to a series of events that has left them not only out of pocket but also much distressed, with future insurance declarations to contend with too. But I'm afraid that Lloyds is entitled to act in accordance with the law in this area. And in the circumstances of this complaint, I don't think it has acted unfairly or unreasonably when doing so.

My final decision

For the reasons I've given, it's my final decision not to uphold Mr and Mrs R's complaint. I won't be requiring that Lloyds Bank General Insurance Limited do anything more than it has already agreed to do.

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

James Kennard
Ombudsman