DRN-5924800

The complaint

A limited company, which I have referred to as L, complains about the handling and decline of its commercial insurance claim by Covea Insurance plc.

What happened

The following is intended only as a summary of the events leading to this point.

L operates as a business dealing with tape media. Part of this is the erasure of data from tape media, allowing these tapes to be resold. L held a commercial insurance policy, underwritten by Covea. In 2021, L experienced problems with the tapes it was dealing with. These had somehow become damaged. L contacted Covea in March 2022 to claim for this loss.

Covea appointed a loss adjuster, which I'll refer to as S, to investigate the claim. S recorded that L explained it had spent a number of months looking into the cause of the problem and resolving the issue. And that it had found that newer versions of the tapes had a different velocity of manufacturing. This meant that L's process of erasure was stretching the tapes.

S considered that the damage would fall under the "equipment breakdown" section of the policy. However, in July 2022, its report was sent to a specialist engineering company, which I will refer to as H. (It should be noted that H may well be Covea's reinsurer for this section of cover, but this does not change the circumstances overly, so I have not commented on this further.)

H did not consider this section responded in the circumstances, as it did not cover "any manufacturing production or process equipment including linked computer equipment", and it considered the tapes to either fall within this or under the definition of "stock". H said that the claim ought to be considered under the "property damage" section of the policy.

This process took some time, and it does not appear that L was kept updated. In August 2023, S spoke with L and, in an email that followed, confirmed, "the claim falls to be dealt with under the material damage section." L has said that, during the conversation(s) at this time, S confirmed that L could dispose of the damaged tapes it had been storing.

In October 2023, Covea wrote to L and explained that it was not meeting the claim. Covea said that it considered the tapes to be a stock item. But that there were exclusions in the policy that related to the cause of damage. L responded, saying that it had discovered that the newer tapes were not different to the older versions – so what it had initially thought to be the cause of damage was incorrect. L also confirmed that the damaged tapes had been disposed of.

Covea responded, saying that S had confirmed it had not given any instruction for L to dispose of the tapes. And Covea said that unless L could confirm how the tapes could have been damaged, it was unable to reassess the claim. Covea did apologise for the time taken to deal with the claim though.

L brought its complaint to the Financial Ombudsman Service. Our Investigator agreed that Covea had not handled the claim well – and recommended Covea pay L £500 compensation for this. However, he was not persuaded that S had most likely directed L to dispose of the tapes. And that, based on the information available, Covea had acted fairly and reasonably when deciding to decline the claim.

L did not agree, and this complaint has been passed to me for a 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.

Having done so, I have reached the same conclusion as our Investigator. I've explained why below.

Firstly, I'll just repeat that the above is only intended as a summary. Both parties have submitted detailed evidence. However, whilst I have considered all of this, I have not referred to each argument or point within this decision. Instead, I have focused on what I consider to be the key issues. This is not intended as a discourtesy but rather reflects the informal nature of the Financial Ombudsman.

The first key issue is whether Covea acted fairly and reasonably when declining the claim.

The policy includes a number of definitions. One of these refers to "electronic magnetic and optical tapes", and this would ultimately lie under "covered equipment", which the equipment breakdown section provides cover for. However, to fall within this cover, the tapes would need to be for use in computer equipment. And I do not consider this to be true of the tapes in question. These tapes were not being "used", they were being processed – to have the data they contained erased. I consider this cover relates to tapes that a policyholder would use to run their business, rather than goods they were processing. This is slightly different to the reasons H gave as to why this section would not apply. But ultimately, I consider Covea was correct in considering the damaged tapes to fall under the definition of stock.

The policy schedule specifically includes "stock of tapes" as an insured item. And it is the property damage section of the policy that applies to this claim.

It seems this is what S was stating when communicating with L in August 2023. I do not consider that the email I have seen indicates the claim will be met – merely that this is the relevant section of cover for the claim to be considered under. I cannot know exactly what was discussed in the calls around this time, and have returned to this point below.

A claim for damage to stock will be covered unless one of the exclusions in the policy applies. It is for Covea to demonstrate that such an exclusion does apply. The exclusions in the policy include:

> "damage caused by or arising from or consisting of… any process involving heating, drying, cleaning, dyeing, staining, repairing, restoring, renovating, fitting, installation, testing, commissioning, alteration or maintenance of any property**"**

Covea referred to the above, along with other exclusions. I have not mentioned these, as I am satisfied that the above applies in the circumstances.

L has said that none of these processes were used in relation to the tapes. However, assuming for the moment that the cause of damage was as L originally said it was, the

damage was caused by a process involving alteration of property. My understanding of the process L was using was that this involved degaussing, which would physically alter the tapes by use of magnets to change the orientation of iron oxide particles. I consider that to be alteration of property.

L has said that its initial theory on how the damage was caused was wrong. But, from the evidence I have seen, L stated this to be the assumed cause of damage following a lengthy period of testing. And I consider it was reasonable for Covea and its agents to assess the claim on the basis of the information L had provided. So, I consider it was fair and reasonable for Covea to conclude that the cause of damage was the processing of the tapes, and so fell under the exclusion above.

I do appreciate that the difficulty with showing this was not the case includes the fact that the tapes have been disposed of. However, L has offered no other suggestion of how several thousand tapes that it had been processed were all damaged other than as part of the process itself.

In terms of whether L was advised to dispose of the tapes, without a recording of the calls in question – which does not exist – I am not able to be certain of what was said. I have therefore thought about what is more likely than not. Certainly, it does not appear likely that S ever provided a definitive statement that the tapes could be disposed of. Following the call, L emailed S asking whether it could confirm it was happy for the tapes to be disposed of. So, there was clearly some uncertainty here. S never responded to this question. S has also said that it would not have given these instructions, and that if this had been a consideration it would have involved a salvage dealer due to the amounts involved. Taking things in the round, I am not persuaded S did say L could dispose of the tapes. I appreciate L will disagree with this conclusion. But the available evidence does not point to S saying this.

What the evidence does show is that the claim took far too long to be dealt with. And that L was not kept appropriately informed throughout the process. Covea has acknowledged this and offered an apology. But I agree with our Investigator that this is not sufficient in the circumstances.

L has said that it had to store the tapes for an extensive period. And that this should be recognised. It does not appear L incurred any specific cost for this – the figures it has quoted appear to be those that it might have incurred had it paid for someone else to store them. If no actual cost was incurred, it is not fair or reasonable to direct Covea to pay this. Storing the tapes would have been inconvenient though. As would having to chase for updates, etc.

The whole process would no doubt have also been very frustrating for L's directors. But the complainant in this case is L itself. L is a limited company, and as such is unable to suffer frustration.

Taking things in the round, I agree with our Investigator that £500 compensation is appropriate in this case.

I appreciate L and its directors may remain unsatisfied. But hopefully I have clearly explained why I have reached the decision I have.

Putting things right

Covea Insurance plc should put things right by paying L £500 compensation.

My final decision

My final decision is that I uphold this complaint. Covea Insurance plc should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask L to accept or reject my decision before 6 March 2026.

Sam Thomas
Ombudsman