

The complaint

A limited company, that I will refer to as C in this decision, has complained about the advice given by its insurance broker, PSP INSURANCE & FINANCIAL SOLUTIONS LIMITED, when arranging its shop insurance.

Mrs F, as Company Secretary, has brought the complaint on C's behalf.

What happened

C held a shops package insurance policy, which was sold by PSP. In August 2022, a fire occurred at C's premises causing substantial damage. C's claim was covered under the policy but the insurer assessed that the buildings total value at risk was £422,000, which meant C was potentially underinsured for the claim, as it had insured the premises for £363,990.

As a result of this, C says it took steps to reduce the cost of the claim, including by project managing the reinstatement works itself and by using different contractors. As a result, no adjustment for any potential underinsurance was applied. The claim was cash settled for just over £189,000 and I understand the work started in late 2023.

The repairs proceeded but C says the settlement received was not enough to complete the works and there is a shortfall of at least £25,000. C is unhappy with this and says that PSP, as its broker for a number of years, should have advised it to set the sum insured higher. Instead, C says PSP told it that the sum insured was adequate.

PSP does not accept it did anything wrong. It says it cannot advise on what specific sum insured a policyholder should select; C was advised to check the sums insured were suitable. PSP says this is reflected in the paperwork provided, which includes warnings that the client should make sure sums insured are adequate. PSP says it can and does sometimes recommend a local surveyor, if the sums insured do not sound reasonable, but also the sum insured might have been adequate at the time the policy was taken out but the Covid pandemic and Brexit meant that construction and material costs have increased significantly in recent years.

C remains unhappy with this and says it was specifically told by the broker that the sum insured for the building was adequate. C therefore referred the matter to us.

One of our Investigators looked into the matter. He said there was not enough evidence that PSP had done enough to advise C about how to set the buildings sum insured. However, the Investigator also said that the shortfall in building costs is not due to the underinsurance but due to the cash settlement not being enough, so while the steps C took to reduce the cost were because it thought it might be underinsured, there is no evidence that the sum insured was inadequate. The Investigator did, however, recommend PSP pay £250 compensation because, if PSP had asked C more questions when placing the policy, C would likely have obtained a rebuild valuation and potentially avoided the inconvenience experienced.

As PSP did not respond to the Investigator's assessment, it 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.

Those selling insurance have a responsibility to provide clear information about the cover being provided, in order to put the customer in a position where they can make an informed choice about the insurance they are buying. This includes providing clear information about the main cover and any significant terms. If the seller is also making a recommendation or advising a customer to take a particular policy, then they also have to take steps to try and ensure the suitability of the recommendation for them.

The relevant policy was sold in early August 2022. I am only considering this policy sale, as it is the one that was in force at the time of the fire. The policy states the insurer will only pay a maximum of the sum insured in any event (*i.e.* £363,990). The policy also provides for some uncertainty in relation to the value at risk, as it states that if at the time of reinstatement, the sum insured is 85% or less of the cost of reinstating the entire building, it can apply a proportionate adjustment to the settlement.

As C acknowledges, PSP was not responsible for assessing the rebuild value of its business premises and this would be something that C would need to do itself. However, I agree with the investigator that it was reasonable to expect PSP to have advised C about the importance of accurate buildings sum insureds and the information expected by the insurer in relation to this.

PSP has not been able to provide any contemporaneous evidence of the discussions around this at the time. PSP has said it cannot advise on rebuilding costs but also said that its agents may refer a client to a surveyor to get a valuation, if they considered the sum insured was not reasonable. This suggests that it would provide an opinion on whether it thinks sums insured are adequate or not. In my opinion, in this case, it should have made clear it could not state whether the sum insured was adequate and advised C to get an independent valuation, and I think it would have been reasonable to expect some advice about increasing building costs and therefore that a small percentage increase year on year may not be adequate. There is no reliable evidence that this was done. I therefore think there is not enough evidence to show that PSP fulfilled its obligations regarding the sale of this policy.

However, having said that, I also agree with the Investigator that the shortfall in rebuild costs is not the result of any lack of advice by PSP. The figures given show that the sum insured was just over 86% of the total value at risk as initially assessed by the insurer (£422,000). And the evidence is that the insurer did not make a finding that C was underinsured and it did not make any deduction for underinsurance. While I understand that C made changes to the claim in order to avoid that possibility, but the fact remains that there was no deduction due to underinsurance. Instead, the shortfall in rebuild costs is because the amount for which the claim was settled turned out not to be enough. This is not attributable to PSP, so I cannot reasonably make any award against PSP for the shortfall.

I have gone on to consider if any other award is warranted. Having done so, I also agree with the Investigator that some compensation is appropriate to reflect the fact that PSP did not provide adequate advice about this issue. I think if C was advised to get a valuation it likely would have done and would likely have increased the sum insured. C would then have likely avoided some inconvenience in relation to the claim.

My final decision

I uphold this complaint in part and require PSP INSURANCE & FINANCIAL SOLUTIONS LIMITED to pay C the sum of £250 for the inconvenience caused by this matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask C to accept or reject my decision before 16 April 2026.

Harriet McCarthy
Ombudsman