

The complaint

Mr and Mrs C complain about the response of Lloyds Bank General Insurance Limited ('Lloyds') to a claim they made under their home insurance policy.

Mr and Mrs C are professionally represented in this complaint. In my decision, I'll only refer to Mr and Mrs C where their representative has made representations on their behalf.

What happened

The background to this complaint is well known to both parties. I won't repeat in detail what's already known to both parties, instead, in my decision I'll focus mainly on giving the reasons for reaching the outcome that I have.

Mr and Mrs C were experiencing problems with the performance of their septic tank system. In July 2024 they arranged for investigative works to take place. They notified Lloyds shortly afterwards to register a claim. Lloyds ultimately declined the claim. Initially, Lloyds said the policy would cover repairs to the 'dip pipes' within the tank, but any repairs/replacement of the soakaway wouldn't be covered under the policy. It was after tests were carried out on the soakaway/drainage field and they showed repairing/replacing the soakaway wouldn't be possible, that Mr and Mrs C proposed a replacement solution (a localised sewage treatment plant) would be needed.

Mr and Mrs C raised a complaint about the claim decline and the service provided. Lloyds partially upheld the complaint and offered £100 for service issues (slow communication), but didn't uphold the main part of Mr and Mrs C's complaint about the claim decline. Unhappy, Mr and Mrs C referred their complaint to our Service for an independent review. Our Investigator considered the complaint and recommended that it be partially upheld. As the dispute remains unresolved, it's been referred to me for a final 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.

Our Service is an alternative, informal dispute resolution service. Although I may not address every point raised as part of this complaint - I have considered them. This isn't intended as a discourtesy to either party – it simply reflects the informal nature of our Service.

The scope of this decision

My role in this dispute is to decide if, on balance, Lloyds have fairly considered the claim before declining it in line with the policy terms. I'll also be considering the service provided and whether the offer made by Lloyds for poor service fairly recognises the impact on Mr and Mrs C.

Mr and Mrs C's professional representative has recently said:

“The matter was brought before the Ombudsman and nothing that you have mentioned was ever a consideration previously. Our complaint to you was in relation to compliance and that Betterment was not a consideration when choice has been removed. We have provided case law to support such an argument and have provided you with Binding Rule information and still you state we have not done enough.”

I’ve considered this complaint under our fair and reasonable remit, as per DISP 3.6.1:

*“The Ombudsman will determine a complaint by reference to **what is, in his opinion, fair and reasonable in all the circumstances of the case.**”*

DISP further sets out:

“In considering what is fair and reasonable in all the circumstances of the case, the Ombudsman will take into account:

- (1) relevant:*
- (a) law and regulations;*
- (b) regulators' rules, guidance and standards;*
- (c) codes of practice;”*

I make no findings in relation to the actions of any third party involved in the purchase of the property and what information was given about the septic tank system. Mr and Mrs C would need to take independent advice on that matter if they believe they’ve suffered a loss.

The claim response

I partially uphold this part of the dispute, broadly for the same reasons our Investigator has previously set out.

Lloyds position is:

- the limit of their liability was repairs to the dip pipes;
- anything related to the soakaway wasn’t covered under the policy; and
- the proposed sewage treatment plant was betterment under the policy.

Mr and Mrs C’s position is:

- repairing the existing sewage system would mean they were in breach of relevant rules and regulations; and
- due to the issues with the soakaway, the sewage treatment plant proposed therefore wasn’t betterment – but the only realistic option available to them.

I find it was fair of Lloyds to offer to repair the dip pipes as this was what caused the subsequent issues with the drainage field/soakaway. But it was unfair of Lloyds to deem any damage to the soakaway be excluded under the policy. In the very specific circumstances of this complaint and the policy wording, I’m satisfied that it would fall under the section 13 of cover (underground cables, pipes, drains and sinks). I’ll set out what Lloyds need to do in relation to this point later in the decision.

I’ve then considered where Lloyds’ liability under this policy ends. This is an indemnity policy. Put simply, if a successful claim was made, Lloyds need to put Mr and Mrs C back in the position they were in immediately prior to the loss event occurring. Generally, that would

look like repairing/replacing what was already in place to ensure a lasting and effective repair.

However, the major point of contention in this complaint has been around changes to the rules about septic tank discharge that came into place as of January 2020. More details can be found here: <https://www.gov.uk/guidance/general-binding-rules-small-sewage-discharge-to-the-ground> Repairing the system Mr and Mrs C already had in place, would possibly put them in breach of the relevant rules and regulations. In any case, it had been established that the existing soakaway can't be repaired.

I've thought carefully about the implications of the above and what's a fair and reasonable outcome in the specific circumstances of this complaint. I find that 'but for' the referenced rule change and the issues with the existing soakaway, Lloyds' indemnity liability would've been limited to repairs to the existing system. However, it doesn't automatically follow that they are now liable for the cost of the sewage treatment plant that Mr and Mrs C went ahead with. I'll explain why below:

- As set out above, this policy *does* cover accidental damage, relevant to what's being claimed for here:

"When we say 'accidentally damaged' we mean physical damage that's sudden, unexpected and not done on purpose. There needs to be a one-off, specific event that caused the damage. For example, if you accidentally put a garden fork through an underground pipe or cable whilst gardening".

- It's been said the septic tank system was installed prior to 1983. Mr and Mrs C say that there was no relevant standard that needed to be met at that time.
- Mr and Mrs C purchased the property in 2023, around three years after the new rules had come in. They've said no issues were highlighted to them as part of the sales process.
- Under the relevant rules that came into force in January 2020, unless Mr and Mrs C's existing sewage management solution was *already* compliant with the new rules/standards - it'd have been non-compliant. The relevant extract here is: *"If your treatment system was installed before 1983 you do not need to do anything to meet the British Standard. There was no British Standard in place before then. **You must still meet the other general binding rules that apply to you.**"*
- If non-compliant, this means the system needed upgrading *prior* to the date of loss here – regardless of the damage that occurred. Upgrades to meet new standards are not an insured event under this policy.
- I have noted the case law referenced by Mr and Mrs C. For clarity, this part of the dispute doesn't fail because of the betterment argument - but because Mr and Mrs C have not shown Lloyds (or our Service) that an upgrade to a new system (such as a sewage treatment plant) *wasn't* required prior to the date of loss here.

Our Service's role in these types of insurance claim disputes is not an open ended one and Mr and Mrs C will need to provide any supporting evidence to Lloyds for their consideration, outside of this complaint and our Service's involvement. Whilst not a direction, our Service would expect Lloyds to fairly consider any new evidence that Mr and Mrs C present.

The service provided

Having considered the service provided and the impact on Mr and Mrs C alongside our published guidelines on these types of awards, I find the £100 offered (and paid) to be fair, reasonable and proportionate.

I say this because the offer recognises there were service failings (not responding to communication in a timely manner). The main factor that influenced the time taken responding to this claim was the regular back and forth between Lloyds and Mr and Mrs C in relation to the claim. I've not seen evidence of other disproportionate and avoidable delays. Given the complex nature of some of the arguments raised, Lloyds needed to escalate many queries internally and this contributed to the time taken and I consider that reasonable.

Putting things right

Lloyds Bank General Insurance Limited will need to (if they've not already):

- Expand the scope of insured damage to include the failed soakaway and the dip pipe repairs; and
- Provide an updated cash settlement offer to Mr and Mrs C based on what these repairs would've cost Lloyds.

I've not awarded simple interest in this direction as it's clear the dip pipe repair was rejected by Mr and Mrs C as it wasn't the claim response they wanted to proceed with and the costs they did incur are something that they've not yet shown were covered by the policy.

My final decision

My final decision is that I partially uphold this complaint. Subject to Mr and Mrs C responding to accept the decision before the deadline set below, I direct Lloyds Bank General Insurance Limited to follow my direction, as set out under the heading '*Putting things right*'.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Mrs C to accept or reject my decision before 12 March 2026.

Daniel O'Shea
Ombudsman