DRN-6016258

Financial Ombudsman Service

The complaint

Mr K complains about Great Lakes Insurance UK Limited's settlement of a claim he made after a fire at his property.

What happened

The background to this complaint is well known to both parties, so I'll provide only a brief summary here, concentrating on what I see as the key issues.

Mr K has a landlord insurance policy, underwritten by Great Lakes, which covers a property he owns and rents out.

In January 2025, Mr K made a claim after a fire caused extensive damage to the property. The cost of repairs to the building is likely to be around £100,000.

Great Lakes accepted the claim. However, they said the damage had been caused by illegal activity (the cultivation of drugs) at the property and so, a policy limit of £5,000 would be applied to the buildings element of the claim.

Mr K complained to Great Lakes and, when they maintained their position, he brought his complaint to us.

After we'd begun our investigation, Great Lakes reviewed their position. They told us they were happy to deal with the claim as malicious damage (rather than illegal activity). The malicious damage section of the policy has a policy limit set at £10,000 (rather than the £5,000 limit for damage caused by illegal activity).

Our investigator's view was that the claim should be dealt with under the fire peril set out in the policy – and not as either damage caused by illegal activity or malicious damage. That would mean the policy limits wouldn't apply (other than the total sum insured for the building).

He also thought Great Lakes should pay Mr K £200 for the trouble and upset he'd experienced as a result of their errors in dealing with the claim.

Great Lakes disagreed and asked for a final decision from an ombudsman. It's their view that an expert fire report says the likely cause of the fire was equipment installed when the house was converted into a cannabis factory.

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.

Although Great Lakes offered to deal with the claim as malicious damage during our investigation, it's clear they believe that the damage should be regarded as a result of either illegal activity or maliciousness (both of which severely limit the amount payable in settlement of the claim). So, I'll deal with both arguments here.

Damage resulting from illegal activity?

The exact wording in the policy - under the heading *Illegal Activities at the Premises* - is as follows:

> *"We will pay for the costs incurred as a result of loss or damage to the building for the purpose of cultivating drugs caused by your tenant."*

The settlement limit on such claims is set at £5,000.

I'm happy to agree that what Great Lakes intended by that clause was – as they themselves put it in response to our investigator's view on the case – that they would not pay for damage when the cause "*was associated with the equipment which was installed when the house was converted*" to be a cannabis factory.

However, that's not what the policy term says. And it was the policy term that was before Mr K when he bought the policy – not Great Lakes' interpretation of it or their intention when they were drafting it.

In short, the fire – and the damage caused by it - was most certainly not "*for the purpose of cultivating drugs*" (as per the policy term itself). Indeed, it had exactly the opposite effect, in reality.

So, I don't think Great Lakes can rely on that term to define the insured peril in this case as "*illegal activities*" – and so, nor can they apply the policy limit for that specific insured peril.

I also note that the fire expert's report isn't definitive about the cause of the fire. It says the *most likely* root of the fire is the electrical routing serving the cannabis growing equipment.

But it allows that the fire may have been caused by other electrical circuitry legitimately in the house - or by another accidental cause. And it concludes that further investigation would be necessary to more definitively identify the cause of the fire.

So, even if I were convinced by Great Lakes' reading of their own policy terms (which I'm not), I wouldn't necessarily be persuaded that they'd done enough to establish the actual cause of the fire.

In summary, the policy wording is, at best, ambiguous. I don't believe it says what Great Lakes imply they intended it to say. It could have said what Great Lakes want it to say, but the current drafting doesn't fit that purpose. And so, I don't think they can categorise this claim as being for damage arising from illegal activity.

Malicious damage?

The policy wording itself on malicious damage simply refers the reader to their policy schedule to find out the policy limits.

Mr K's schedule includes an endorsement (LA07), entitled *Theft or Malicious Damage by Tenant*, which says:

> "*We'll pay for Damage…. caused by:*
>
> a. *theft or attempted theft*
>
> b. *malicious persons or vandals*

by your tenants."

The endorsement goes on to set the policy limit for that kind of claim at £10,000 per individual claim.

I don't think that term is written grammatically correctly. But more importantly perhaps, there's no definition of the term *malicious* in either the schedule or the policy booklet itself.

In ordinary usage, a malicious act would be seen as one carried out with the intention of doing harm. I wish to do you harm, so I intentionally destroy or damage your property, for example.

In this case then, the fire is not a malicious act – no-one intended to cause the fire, much less did anyone cause the fire with the intention to damage or destroy Mr K's property.

I'm aware that there are legal arguments about whether an event can be said to be malicious if the perpetrator intended something else but caused a secondary outcome through recklessness.

However, I have to bear in mind here – as I said above – that the cause of the fire hasn't been definitively identified. So even if we allow the contentious (in the specific circumstances of this case) legal interpretation set out above, it's not absolutely clear that the fire was an unforeseen but reckless outcome of the set-up of the cannabis factory and its electrical components.

Also, I'm considering here what's fair and reasonable for the customer (Mr K). And if there are ambiguities in what the policy terms mean (and here, I say again, the term *malicious* is not defined in the policy documents) then the benefit of any doubt would go to the customer and not to the insurer – the latter being the expert in insurance matters and the party that wrote the policy.

The nuances in the legal interpretation of the term *malicious* are all well and good (and contentious, as I say) but I wouldn't expect Mr K to be aware of those complexities when he bought the policy and decided that the cover was suitable for his needs (taking into account the claim limit set in the endorsement about malicious damage).

I understand what Great Lakes' intention with the malicious damage endorsement may have been. But I don't think that would be understood by their customers, in terms of what's said in the policy documents.

And I think Great Lakes could formulate that intention much more clearly – and in terms that could be easily understood by the customers – in their policy terms, should they wish to do so.

In short, I don't think on balance that Great Lakes have definitively established the cause of the fire and so can't attribute it to a malicious act. And in any case, I believe the relevant policy endorsement is, at best, ambiguous and Mr K may reasonably have thought, when buying the policy, that incidents such as this would be covered under the fire peril.

Summary

So, in summary, I don't think Great Lakes are justified in settling this claim (and applying the relevant policy limits) on the basis that the insured peril was either illegal activity and/or a malicious act.

Putting things right

It follows that I agree with the outcome proposed by our investigator. Great Lakes must now proceed to settle the claim as a fire peril claim, and not as either an illegal activity or malicious acts claim.

They'll need to re-consider the settlement of the claim, applying the remaining policy terms, but without applying the settlement limits imposed on claims for damage caused by illegal activity or malicious acts.

I also agree that if the settlement amount increases as a result of that re-consideration of the claim, Great Lakes should add interest at 8% simple per annum to any additional amount they now pay to Mr K (calculated from the date the original cash settlement – of £5,000, I believe - was paid and up to the date they pay any additional sum).

I also agree with our investigator that Great Lakes should pay Mr K £200 in compensation to Mr K.

The fire at the property was always going to cause Mr K significant distress and inconvenience – and Great Lakes aren't the cause of that. However, the delay in the proper settlement of the claim has caused added distress and inconvenience, particularly bearing in mind the worry Mr K will have been caused by the thought that he might receive only £5,000 to cover repairs costed at around £100,000.

My final decision

For the reasons set out above, I uphold Mr K's complaint.

Great Lakes Insurance UK Limited must now:

- settle the claim as a fire peril claim (as set out above);
- add interest at 8% simple per annum to any additional amount they now pay to Mr K (calculated from the date of the original cash settlement to the date they pay any additional sum); and
- pay Mr K £200 in compensation for his trouble and upset.

If Great Lakes Insurance UK Limited considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr K how much it's taken off. It should also give Mr K a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 18 March 2026.

Neil Marshall
Ombudsman