

The complaint

Mr and Mrs W complain about the settlement The National Farmers' Union Mutual Insurance Society Limited, trading as NFU Mutual, has offered for a claim they made on their commercial insurance policy.

Reference to Mr W includes Mrs W and their representative. And reference to NFU includes its agents and representatives.

What happened

The circumstances of this complaint aren't in dispute, so I'll summarise the main points:

- Mr H took out a commercial insurance policy many years ago. It was sold and underwritten by NFU and renewed annually.
- In May 2023, Mr W got in touch with NFU to make a claim for water damage. Though NFU accepted the claim, it said Mr W was underinsured and therefore the claim settlement would be reduced.
- NFU said Mr W had declared a rebuild cost of around £335,000 at the October 2022 renewal. But it thought this figure should have been just over £1,000,000. NFU said that meant Mr W was insured for around 33% of the amount he should have been. It initially offered to proportionately settle the buildings claim at 40% of its value.
- Mr W obtained a valuation of his own, which estimated the rebuild cost at around £650,000. Whilst NFU had reservations about the valuation, it nonetheless offered to increase the proportionate settlement to 54% of the buildings claim value in line with that valuation.
- Mr W complained about the reduction for underinsurance. In summary, he said:
 - He'd been insured with NFU for over 20 years. The rebuild cost was originally set in conjunction with NFU, and reviewed by NFU annually. Prior to the 2022 renewal, the NFU agent visited the property to help with that.
 - NFU hadn't advised him to increase the rebuild cost or obtain a valuation. Nor had it explained what should be included in the cost.
 - The index linking applied by NFU was inadequate.
 - If he'd been told he needed to increase the rebuild cost and pay an additional premium, he would have done so in order to be adequately covered.
 - NFU caused avoidable delays, which led to unnecessary distress and inconvenience and additional costs repairing the river wall.
- NFU said this was an advised policy, but that didn't mean the sale included completing a valuation for Mr W. It said it was his responsibility to accurately value the rebuild cost. It had index linked annually in line with Royal Institution of Chartered Surveyors ("RICS") rates, which had helped to limit the underinsurance problem. It

thought 54% was a fair offer in the circumstances. Lastly, NFU didn't think it had caused any unreasonable delays during the claim.

- Our investigator thought NFU acted fairly and reasonably overall. Mr W disagreed, so the complaint 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.

- When considering what's fair and reasonable in the circumstances I've taken into account relevant law and regulations, regulators' rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice at the time. Whilst I've read and taken into account everything said by both parties, I'll only comment on the points I think are relevant when reaching a fair outcome to this dispute. That's a reflection of the informal nature of this Service.
- There are a number of points for me to consider, so I'll take each in turn. I'll start by considering the main complaint point about underinsurance, then the point about the way the policy was sold, and finally the claim handling point.

Underinsurance

- This complaint point has arisen because NFU considers Mr W didn't provide reasonable information at the 2022 renewal. As Mr W is a commercial customer, the law about the information he should provide at a renewal, and the options an insurer can take in response to that, is the Insurance Act 2015 ("the Act").
- The Act says, in summary, that Mr W was responsible for making a 'fair presentation' of the risk. If Mr W fulfilled that duty, NFU can take no action. If NFU can show he didn't fulfil that duty, and NFU can show that it would have acted differently if he had fulfilled that duty, the Act sets out the remedies available to NFU. Depending on the circumstances, that can include settling the claim proportionately.
- At the 2022 renewal, NFU told Mr W the declared value had been increased to around £350,000 because of index linking. And the policy was provided on a 'day one reinstatement' basis. According to the policy, that meant the declared value should reflect the cost of reinstating the property, at the date of the renewal, including professional fees and debris removal costs. Mr W renewed the policy without changing this declared value.
- So the question is whether £350,000 amounted to a reasonable estimate of the reinstatement cost, based on what Mr W knew, or ought reasonably have known, at the 2022 renewal. And, if not, what would a reasonable estimate have been?
- I think it's been accepted by all parties that £350,000 wasn't a reasonable estimate. The valuation obtained by NFU was over £1,000,000 and the valuation obtained by Mr W was around £650,000. Both are clearly considerably greater than £350,000.
- I understand a declared value was set many years earlier and Mr W relied on index linking thereafter to maintain an estimate. It may have been reasonable for Mr W to rely on the original declared value at the time. But that was many years prior to the 2022 renewal, possibly around 20. Whilst index linking provides an estimate of the

likely increase to the reinstatement cost, it is still only an estimate and is therefore naturally of limited accuracy. Relying on index linking for many consecutive years means relying on a series of compounded estimates. That makes the resulting estimated reinstatement cost less likely to be accurate and reliable.

- I think this is recognised by NFU in its policy. It says, in summary, it won't proportionately settle claims where the reinstatement cost is based on a RICS valuation within the preceding five years.
- Taking all of this into account, I'm satisfied Mr W's estimate was unreasonable. So I don't think it amounted to a fair presentation of the risk, in line with the Act.
- Though NFU thought a reasonable estimate would have been just over £1,000,000, and it had reservations about Mr W's estimate, it nevertheless agreed to settle the claim based on it, at around £650,000. Because of that, I don't think I need to consider whether a higher estimate was reasonable. NFU has accepted the lowest estimate available.
- NFU has shown it would have charged a higher premium had it been told the reinstatement cost was around £650,000. That meant Mr W paid around 54% of the premium he ought to have done for the policy. In line with the Act, that means NFU was entitled to proportionately settle the claim at that percentage. And that's what it offered to do.
- This is the same proportion it would have paid if it had relied on the 'average' policy term to make the reduction.
- So, overall, NFU has offered a settlement in line with the Act and the policy terms. As a result, I'm satisfied it acted fairly and reasonably on this point.

Policy sale

- As this was an advised policy, NFU was responsible for taking reasonable care to ensure the suitability of its advice and to explain why a contract of insurance would be adequate to meet Mr W's needs.
- NFU was also responsible for providing Mr W with information that was clear, fair and not misleading so that he could make an informed decision about whether the policy was right for him, including whether he needed to make any changes to the cover.
- It's unclear exactly when the policy was sold, though it's thought to have been around 2000. Given how long ago that is, I can understand why neither party has information about it available now. That means I can't consider the original sale, including whether the initial declared value was a reasonable estimate. But I don't think I need to in order to reach a fair and reasonable outcome, because what happened since then – and particularly in more recent years – is more relevant in my view.
- NFU has provided an 'insurance review' document from 2015, 2017, 2020, 2021, and 2022. Whilst each is slightly different, they all broadly cover similar information. Relevant to this complaint, NFU:
 - Prominently highlighted to Mr W the importance of making sure the declared value is sufficient.
 - Set out what the reinstatement estimate for the declared value should include.

- Explained that insufficient cover would mean a reduction to any claim settlement, and Mr W would have to pay the shortfall.
 - Recommended Mr W seek professional advice if he had any concerns about the sums insured. NFU said it offered a valuation service.
- The 2015 review also said that whilst declared values are index linked, Mr W shouldn't rely on these alone to ensure the value remains adequate.
 - As a result, I'm satisfied NFU made clear to Mr W the importance of the declared value to a claim, what the value should be based on, and recommended he obtain a professional valuation. So I consider it took sufficient steps to make him reasonably aware of what he should do in order to be fully insured.
 - It doesn't seem to be in dispute that the policy was generally suitable for Mr W. In the event of damage to the building, the claim was accepted. But for the underinsurance, the policy has covered a significant loss. Mr W's point is effectively that an advised sale meant NFU gave advice in relation to the specific declared value. So, because the value wasn't set at a sufficient level and/or NFU didn't more strongly encourage Mr W to obtain a professional valuation, it effectively advised Mr W the index linked declared value was sufficient.
 - I'm satisfied the responsibility on NFU didn't extend as far as giving advice on the specific declared value. I'm not persuaded NFU gave the impression it carried out a professional valuation or had otherwise checked the declared value was sufficient.
 - Making Mr W reasonably aware of the steps he should take in order to be fully insured was the limit of NFU's responsibility in my view – and I'm satisfied it did that. It was clear about the importance of being fully insured, the risk of not being fully insured, and what he could do to alleviate that risk. I don't think NFU would have made these points if it had taken responsibility for checking the declared value.
 - The policy says NFU will index link the declared value in line with the RICS recommended rates. And that's what it did. I'm satisfied it was a reasonable rate to rely on, as it's a relevant and reputable source to estimate the likely increase in reinstatement cost each year. Whilst that wasn't as accurate as obtaining a professional valuation, NFU wasn't responsible for doing that – and it let Mr W know he could take up that option.
 - Overall, I'm satisfied NFU fulfilled its responsibilities I set out above. So I'm satisfied it isn't responsible for the claim shortfall as a result of the way it sold the policy.

Claim handling

- NFU is required to handle claims promptly and fairly.
- Every claim involves a degree of distress and inconvenience for the policyholder, especially one such as this where damage and costs are significant. The time and trouble inevitably involved in dealing with a claim isn't something I can hold against the insurer. But, where it avoidably and materially adds to that, I may find it's acted unfairly and should take steps to put that right.
- Looking at the claim history, I haven't found any avoidable and material delays caused by NFU. And I think it handled the claim fairly overall.

- Our investigator has set out the key points of the timeline clearly and in detail and that hasn't been challenged. So I don't see a benefit for me to repeat it all here.
- In short, NFU was clear early in the claim that it thought Mr W was significantly underinsured. So whilst that was no doubt unwelcome news for Mr W, his expectations were clearly set. NFU remained in regular contact with Mr W, providing meaningful and reasonably timely updates and information throughout.
- After an initial inspection, NFU arranged for a valuation. Given the potential for significant impact on the claim, I think it was right for NFU to carry out a detailed professional valuation. Mr W was entitled to challenge the valuation, but that naturally took time to produce and for NFU to consider. Whilst NFU accepted his valuation for claim settlement purposes, that wasn't because NFU thought its earlier valuation was incorrect – I think it chose to compromise on this point, in Mr W's favour.
- NFU took steps to agree the claim value with Mr W. Given the cost and nature of the work, I think the time it took was reasonable. Similarly, the time taken to go on and make payments was also reasonable.
- Taking all of this into account, I'm satisfied NFU handled the claim promptly and fairly in the circumstances. As a result, I'm not persuaded it caused Mr W any material, avoidable distress and inconvenience and/or financial losses.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs W to accept or reject my decision before 17 February 2026.

James Neville
Ombudsman