

The complaint

Mrs D has complained that Hadron UK Insurance Company Limited (“Hadron”) has dealt unfairly with a claim made following fire damage to her property.

Mrs D has been represented in this complaint. For ease, I’ll refer to the representative’s comments as Mrs D’s own.

Any references to Hadron in this decision include its appointed agents.

What happened

In March 2023, Mrs D’s property was damaged extensively, along with the neighbouring hotel, due to a fire. She made a claim under her Commercial Property Investors Policy with Hadron.

Hadron told Mrs D she was underinsured, because the full reinstatement value she’d given at renewal, to completely rebuild the property, wasn’t accurate. It said it would proportionately settle her claim as a result.

Mrs D complained. She said the square metre measurements Hadron had used were incorrect and that it should revisit to measure the property again. She also said it wasn’t fair to apply VAT to the entire property, as only the ground floor was commercial premises.

In its final response to her complaint, Hadron said the figure given at renewal to reinstate the property was £1,829,221 – but following a value at risk assessment, the reinstatement figure was actually estimated to be £2,723,441.90 – over £900,000 higher than the figure given. It said this had been referred to underwriters, who had confirmed that if the correct reinstatement cost had been known, it would’ve charged a higher premium for the policy and that the claim was therefore subject to a 32.83% proportionate deduction.

Hadron added that it didn’t accept Mrs D’s own value at risk assessment which came in at £2,001,188 – saying the assessor didn’t attend the site and based their assessment on basic measurements provided to them. It did however obtain a further, independent, reinstatement value from a separate company, which came in at £2,940,000, and a third assessment came in at £2,445,215.50. It agreed to reduce the deduction applied to 26.46% and offered Mrs D £250 compensation for claims handling issues.

But Mrs D didn’t accept. She said Hadron had dismissed the rebuild value given by her surveyor on the basis that he hadn’t visited the site, when he had. She also said the measurements used by Hadron were still incorrect and that she’d obtained expert opinion around the application of VAT, and the expert had agreed with the position that it shouldn’t apply to the residential unit.

The complaint was referred to the Financial Ombudsman Service. Our Investigator considered it and recommended Hadron pay the claim up to £1,829,221. Hadron agreed, but Mrs D didn’t and raised further concerns, including that the loss of rent figure was too low considering the time that had passed, because while three years would usually be enough

time to rebuild, no major reconstruction could commence until the hotel next door was rectified and there was no sign of this happening.

As an agreement couldn't be reached, the complaint was referred to me for an Ombudsman's decision.

I issued my provisional decision on 15 December 2025 and I've included an extract from it below:

"As this is an informal service, I'm not going to respond here to every point raised or comment on every piece of evidence Mrs D and Hadron have provided. Instead, I've focused on those I consider to be key or central to the issues in dispute – namely, the underinsurance and claim settlement, the application of VAT, and the loss of rent. But I would like to reassure both parties that I have considered everything submitted. And having done so, I intend to reach a different conclusion to our Investigator whilst still upholding this complaint. I'll explain why, dealing with each issue in turn.

Underinsurance and claim settlement

Mrs D's policy says, under Section One: Buildings Conditions: "If, in respect of a valid claim under this policy, at the time of the damage the declared value of the building you are claiming for is less than the cost of reinstatement at the start of the period of insurance, our liability for any damage will be proportionately reduced and will be limited to the proportion that the declared value bears to the cost of reinstatement."

Hadron told Mrs D her claim would be proportionately settled and it offered to do so in line with the Insurance Act 2015.

And, as Mrs D's policy is a commercial one, I think it's relevant for me to consider the Insurance Act. Under the Act, commercial policyholders have an obligation to volunteer the right information to an insurer when taking out a policy, i.e. they have a duty to make a fair presentation of the risk. This means a commercial customer has to disclose either:

- *Everything they know, or ought to know that would influence the judgment of an insurer in deciding whether to insure the risk and on what terms; or*
- *Enough information to put an insurer on notice that it needs to make further enquiries about potentially material circumstances.*

The Act also says that a policyholder ought to know information that should reasonably have been revealed by a reasonable search of information available to them. I'm satisfied this includes a reasonable estimate of the full rebuild cost of their property. I've checked the policy documents for the affected risk address and the declared reinstatement value is given as £1,829,221, whilst the sum insured is set at £2,649,449 – which is the maximum amount payable for the reinstatement of buildings under the claim.

It's not clear where the estimate that was initially given to Hadron came from. I haven't seen anything to show how the estimate was made or by whom. And I've seen nothing to persuade me that it was a deliberate or reckless guess as to the true rebuild cost of the property. But the post-claim rebuild assessment report Mrs D obtained concluded that the reinstatement cost for the property would be £2,001,188 inclusive of VAT. It also said, "The assessment is based on the information provided and the inspection and other relevant information sources" and "The property has been measured in line with the RICS Code of Measuring Practice 6th Edition".

As all the estimates provided after the claim have come in at over £2 million, I'm not satisfied the £1.8 million estimate given at renewal was reasonable. But I'm not persuaded by Hadron's rebuild cost assessments either, which have all varied significantly, from £2.4 million to £2.9 million.

Hadron has accepted that it made a mistake when it considered Mrs D's value at risk assessment was carried out without a site visit. It's now said it accepts a site visit was carried out by the assessor, but it says this hasn't made a difference to the settlement offer because the calculations are complex. It says it's supported its argument with numerous surveyor visits. And it's given other reasons why it thinks Mrs D's report doesn't give an accurate reinstatement cost for the property. These include that the amounts allowed for demolition, the glass roof atrium and professional fees are too low. But I'm satisfied Mrs D's surveyor had the necessary qualifications to undertake a value at risk assessment and I find the report to be sufficiently detailed and persuasive, with clear explanations of how the rebuild cost has been worked out. So I'm not satisfied Hadron's concerns about the report and rebuild cost are currently justified.

It follows therefore that I currently consider Hadron has acted unfairly by dismissing, without sufficiently good reason, the findings of Mrs D's own surveyor, who determined that the value at risk was £2,001,188 inclusive of VAT. So, I intend to require Hadron to recalculate the settlement based on Mrs D's surveyor's assessment, and apply a proportional settlement based on that assessment. In doing so, it should follow the principles of the Act, and settle the claim in the proportion the premium paid bears to the premium that would've been charged had the reinstatement cost been given as the amount specified by Mrs D's surveyor.

The sum insured is set at £2,649,449 in the policy addendum – so as this is the maximum amount payable for the reinstatement of buildings under the claim, Hadron won't need to pay more than this in settlement of the claim.

Should VAT apply to the entire building?

I've considered both parties' opinions about this, which are conflicting. I note that Mrs D's surveyor's report sets out that:

“VAT has been added to the calculations at the standard rate of 20% as set on 4th January 2011. VAT is not applicable to residential property rebuild costs and may not be applicable in some instances.”

The report goes on to say that tax advice should be obtained if there's any doubt about the application of VAT to the property. And I agree with that. We're not tax specialists and can't give an opinion about whether or not VAT is applicable to the entire building or not, so I'd suggest the parties obtain specialist tax advice from an independent advisor.

Loss of rent

Hadron's latest offer for loss of rent was £216,000. The policy says “Loss of rent is included up to 20% of the buildings sum insured (excluding unoccupied premises).”

Having considered all the available information, I'm satisfied Hadron's offer from July 2025 to pay for loss of rent for five years is fair. Mrs D's own surveyor's report says that it would take “circa 36 months to rebuild the property” and that “the time it takes to rebuild the property will be influenced by many factors and a longer period may be necessary depending on individual circumstances”.

So whilst I appreciate complications can occur and work hasn't started on the hotel next door, I can't consider a hypothetical situation in which the property takes longer than 3 years to rebuild, as I consider this a reasonable time based on all the evidence I've seen. If there are ongoing delays in commencing the rebuild – outside the control of either party – then it will be for both parties to discuss this if and when those delays occur, and reach an agreement on whether further loss of rent is payable under the policy.”

Mrs D responded to my provisional decision and Hadron didn't provide any further information by the deadline given.

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.

Mrs D said, in response to my provisional decision, that she believed the independent advice from a qualified tax specialist would agree with her assumption that VAT should not apply to the residential element of the property reinstatement value. She also said loss of rent should be covered for three years from now, but I've not seen any information which makes me think Hadron's offer to pay for five years' loss of rent is unreasonable. I appreciate that there have been delays outside Mrs D's control but as I said in my provisional decision, I cannot consider a hypothetical situation in which the repairs take an unreasonable length of time to complete, for reasons which are also outside Hadron's control. If Mrs D wishes, she can approach Hadron again in the future to enquire about ongoing loss of rent once she has a better idea of the repair schedule. But considering everything I've seen, I'm still satisfied Hadron's offer is fair.

Mrs D has also mentioned the charge for hoarding and structural supports – but I'm afraid I haven't seen evidence that Hadron agreed to pay this over and above the settlement offered. As this wasn't mentioned in the complaint form to this Service, or covered in Hadron's final response letter, Mrs D is free to raise this matter with Hadron directly if she has evidence to suggest it agreed to pay this charge separately.

As neither party has provided evidence which changes my view of this complaint, I see no reason to depart from my earlier findings, which now form part of this final decision. I therefore uphold this complaint and will require Hadron to do the following to put things right for Mrs D.

Putting things right

Hadron UK Insurance Company Limited should recalculate the settlement based on Mrs D's surveyor's assessment, up to the policy limit of £2,649,449 - and apply a proportionate reduction based on that assessment.

In doing so, it should act in line with the remedies available under the Insurance Act 2015, and settle the claim in the proportion the premium paid bears to the premium that would've been charged had the reinstatement cost been declared as the amount specified by Mrs D's own surveyor.

In doing so, Hadron UK Insurance Company Limited should provide to this Service its underwriting calculations or a rating table showing the premium that would've been charged had a rebuild cost of £2,001,188 been declared at renewal.

My final decision

My final decision is that I uphold this complaint and I direct Hadron UK Insurance Company Limited to put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 27 January 2026.

Ifrac Malik
Ombudsman