

The complaint

S, a limited company, complain about Hadron UK Insurance Company Limited's settlement of a claim made under their property owners' insurance policy

What happened

The background to this complaint is well known to both parties, so I'll provide only a brief summary here.

S have a property owners' insurance policy underwritten by Hadron which covers a block of flats they own and rent out.

The policy was taken out in August 2022. At that point, S said the cost to rebuild the property would be around £1.9m.

At renewal, in August 2023, Hadron applied an uplift for inflation, so the rebuild cost (called in the policy "reinstatement declared value") was increased to around £2.15m.

The policy also has a Sum Insured, set at a higher figure – in this case around £2.9m. Hadron tell us this is to allow some leeway for the policyholder if (and only if) inflation in-year means that the total rebuild cost is – at the point they make a claim – higher than the reinstatement value set out at the start of the policy year.

S made a claim in October 2023 after discovering an escape of water at the property which had caused quite extensive damage. Hadron accepted the claim and appointed loss adjusters.

Surveyors (who I'll call T) were appointed to assess the rebuild cost of the property. Their report said the true rebuild cost – at the start of the policy year – would have been around £2.9m.

So, Hadron advised S they were underinsured. They said the declared rebuild cost (at around £2.15m) was inadequate.

S commissioned their own valuation report (from a surveyor I'll refer to as B). B said the true rebuild cost was around £1.75m – a figure well within both the reinstatement declared value and the Sum Insured.

Hadron commissioned a third surveyor (who I'll call P). Their report put the rebuild cost at around £2.56m. Having then adjusted some marginal costs (for retaining walls and paving), Hadron re-calculated the rebuild cost at around £2.48m.

They said that still left S underinsured, which meant they would settle the claim proportionally based on a comparison of the premium S actually paid against the premium they ought to have paid (if the rebuild cost had been accurate).

S weren't happy with this outcome and made a complaint to Hadron, which they then brought to us when Hadron maintained their position.

Our investigator looked into it and thought Hadron hadn't acted fairly. In essence, she thought the policy terms and documentation failed to set out clearly what the difference was between the reinstatement declared value and the Sum Insured. The latter term, she thought, wasn't defined at all.

She also said Hadron hadn't done enough to establish that S's estimation of the rebuild cost for the property wasn't given honestly and in good faith at the relevant time.

And on that basis, she said Hadron should pay the claim in full (adding interest to the sums now paid). She also thought Hadron should pay S £750 in compensation for the inconvenience they'd been caused.

Hadron disagreed and asked for a final decision from an ombudsman.

I agreed with our investigator about the outcome of the complaint. But my reasoning was different, so I issued a provisional decision. That gave both parties a chance to provide further information or evidence and/or to comment on my thinking before I made my final decision in this case.

My provisional decision

In my provisional decision, I said:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

S is a commercial customer, therefore the relevant legislation here is the Insurance Act 2015. This requires a prospective policyholder to make a fair presentation of the risk to the insurer when they buy their policy.

The Act says that representations made by the prospective policyholder about matters of fact must be substantially correct. Representations about expectation or belief must be made in good faith – in other words, the prospective policyholder must genuinely believe that their estimate or opinion is reasonable.

The Act allows remedies to the insurer where there have been misrepresentations - if they would have acted differently had the misrepresentations not been made.

In this particular case, Hadron have paid the claim proportionally. They say S ought to have paid a higher premium, in light of the true reinstatement cost for the property. And they've compared the premium S actually paid to the one they say S ought to have paid – and settled the claim in that proportion.

Hadron have provided evidence to show what premium they would have charged had the reinstatement cost been higher. And I'm satisfied that their calculations, on that basis, are reliable - and in line with the remedies set out in the Insurance Act.

However, I'm minded as things stand to uphold S's complaint and require Hadron to pay the claim in full. I'll explain why.

Policy terms - Sum Insured versus reinstatement declared value

I tend to agree with our investigator on this point. Their view has been explained in detail to both parties already.

The relevant policy terms are slightly confusing. I'm aware that S is a commercial customer - and bought the policy through a broker – but I don't think it's reasonable to say that they would or should have completely understood why the policy had both a declared reinstatement value and a (much higher) Sum Insured.

Hadron say it ought to be clear that the higher Sum Insured is to account for any possible inflation in building or material costs within the policy year.

I'm not sure I agree with that. For example, it's not immediately apparent how that squares with the "*day one average clause*" in the policy.

That clause implies that the insurer, when assessing a claim (whenever in the policy year that claim is made), will look at the declared reinstatement value given by the customer on day one of the policy against the true rebuild cost on day one of the policy. On day one of the policy, there will have been no in-year inflation as yet.

So, on balance, I don't think Hadron did enough to explain to S (or their broker) the reasons for the Sum Insured being different from (and higher than) the declared reinstatement value.

The reinstatement value declared by S

In order to apply the remedies set out in the Insurance Act, Hadron would need to show that S did not act in good faith when they declared the reinstatement value of the property prior to inception. In other words, Hadron would need to show that S did not genuinely believe that their estimate was reasonable.

S declared a reinstatement value of around £1.9m (increased at renewal to £2.15m). There are three expert surveyors who have offered a view on the reinstatement cost. They vary between around £1.75m and around £2.9m.

The estimate at the higher end – given by T – has been disregarded by Hadron. Exchanges between the loss adjuster and Hadron show that they think that estimate was questionable. They asked T to review their estimate, in light of additional information provided by S, but T refused to do so.

The remaining estimates – both provided by suitably qualified surveyors - were at around £1.75m and around £2.56m. S's declared reinstatement value is closer to the higher surveyor's estimate.

Hadron then agreed to reduce P's estimate when S pointed out that some costs (for retaining walls and paving) in the two survey reports (T's and P's) were very different. The net effect was to bring the estimated reinstatement cost down to around £2.48m.

It's difficult to maintain an argument that S acted in bad faith when they bought the policy (and/or at renewal) and declared a reinstatement value of around £1.9m (later increased to £2.15m to account for inflation), when the two qualified experts differ significantly.

Hadron have provided no persuasive reason for their suggestion that the c.£1.75m estimate (provided by B) is unreliable. They simply said B worked from the construction drawings for the property, rather than attend to measure it – and that they'd used some of the costings set out originally in T's report (rather than assess these independently).

If Hadron wants to maintain that the reinstatement cost proposed by B was significantly and clearly under-estimated, then I'd expect them to demonstrate that rather more persuasively.

So, I'm not minded at present to say that Hadron have shown S's estimate to have been unreasonable, much less that they've shown it was not given in good faith. And that being the case, they can't fairly apply the remedies set out in the Insurance Act 2015.

Policy terms on underinsurance

The reinstatement declared value on the policy, after an inflationary uplift applied by Hadron at renewal, was £2,156,000.

The policy terms (specifically the day one average clause) say (amongst other things):

"The cover for each building is subject to average. Therefore, if the building at the time of damage is valued at more than 115% of the declared value stated in your schedule, then you will be considered as self-insured for the difference and will be responsible for a proportionate share of the loss."

Any natural reading of that clause suggests that Hadron will consider the policyholder underinsured (and responsible for a proportionate share of the loss) if 115% of their declared reinstatement value is less than the true reinstatement cost.

So, 115% of S's declared reinstatement value is £2,479,400 [115% x £2,156,000].

Hadron's estimate of the true reinstatement cost – after P's estimate was adjusted to account for the lower paving and retaining wall costs – is £2,477,534.50. I've taken this figure from an internal email between Hadron employees / agents, dated 9 July 2025.

So, S's declared reinstatement value, with the 115% clause (set out above) applied, is higher than Hadron's most recent estimate of the true rebuild cost. That being the case, I'm minded to conclude that the policy terms do not allow Hadron to reduce the settlement of the claim on the basis that S is underinsured.

Summary and next steps

It follows that I agree with the outcome proposed by our investigator. I'm minded to conclude that Hadron should settle the claim in full, paying interest (at 8% simple per annum) on any payment they now make (calculated from the date they made the last payment to S).

It should also pay S £750 compensation in recognition of the inconvenience this matter has caused it, such as delays with repairs and strained relationships with tenants."

The responses to my provisional decision

S responded to say they agreed with the outcome set out in my provisional decision.

However, they said P's estimate of the rebuild costs (£2,477,534.50, when adjusted to take account of lower paving and retaining wall costs) was still higher than it should be because P

had added in demolition costs and professional fees.

S say the rebuild costs in P's report were derived from the same Building Cost Information Service (BCIS) reinstatement calculator used by T and B (T's estimate being higher because they hadn't measured the building accurately, according to S).

S say that calculator gives a reinstatement cost per square metre *including* demolition costs and professional fees. So, P made an error in adding those costs on to their calculation.

Taking those erroneous additions away from P's estimate gives a total reinstatement cost at £2,119,897.70, according to S. And that's just less than the £2,156,000 reinstatement cost included in their policy at renewal.

So, in essence, S believe there is no need to rely on the 115% figure set out in the underinsurance clause (quoted above) in the policy terms. They believe they were adequately insured even without the leeway that provided.

Hadron haven't responded to my provisional 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.

I understand S's argument about the demolition costs and professional fees. I'm inclined to agree with them. And I also agree that when you take into account the alleged error made by P, the calculations take us even further away from any idea that S were underinsured.

I hadn't relied on those arguments in my provisional decision because it wasn't necessary to do so in order to reach the conclusion that Hadron couldn't settle the claim proportionally based on S being underinsured.

And I'm aware that P hadn't commented directly on S's arguments about the demolition costs and professional fees, so we didn't have their side of the story, as it were.

In any case, given that Hadron haven't given me any reason to re-visit my provisional conclusions, it's of no consequence in terms of the outcome of the case. I have no reason to change my mind about that outcome. And so, I'm going to uphold this complaint.

Putting things right

In my provisional decision I said I was minded to conclude that Hadron should settle the claim in full, paying interest (at 8% simple per annum) on any payment they now make (calculated from the date they made the last payment to S).

And I said they should pay S £750 compensation in recognition of the inconvenience this matter has caused S, such as delays with repairs and strained relationships with tenants.

I have no reason to change my mind about what needs to be done to put things right for S, given that Hadron haven't responded to my provisional decision.

My final decision

For the reasons set out above and in my provisional decision, I uphold S's complaint.

Hadron UK Insurance Company Limited must now:

- settle the claim in full, paying interest (at 8% simple per annum) on any payment they now make (calculated from the date they made the last payment to S); and
- pay S £750 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask S to accept or reject my decision before 24 March 2026.

Neil Marshall
Ombudsman