

The complaint

E, a limited company complains about what Society of Lloyds (Lloyds) did after it made a claim on its business protection insurance policy. E is represented in bringing the complaint by one of its directors (Mr C). All references to Lloyds include its agents and claims handlers unless separately identified in this decision.

What happened

In April 2023 there was a power incident at E's business premises. Following that E found two specialist machines were no longer working. E contacted Lloyds via its broker to claim on its policy. Loss adjusters were appointed. A report at the end of May said a meeting had taken place at the insured property with one of E's directors. Information on the damaged machines and the cause of that was requested. Further chasers were sent but Lloyds didn't receive a response (via E's broker) until October 2023.

At that time (and in subsequent emails) E said it had paid repair costs relating to the machines. Those repairs were ultimately unsuccessful and both machines needed to be replaced. E also said it incurred costs in outsourcing work. And it had lost out on revenue it would otherwise have achieved. Lloyds sought further information on those losses. It accepted in February 2024 policy cover was available and paid the replacement cost of the damaged machines the following month. It requested further information to support the business interruption and increased cost of working claims.

In April 2024 Lloyds received a business interruption claim from E's representatives which came to around £1.87 million. E explained that as a result of the damage to its machines it hadn't been able to complete a number of specific projects which would otherwise have generated significant revenue. Lloyds said that was a significantly higher loss than it had previously been advised. Following a meeting with E's representatives to discuss the claim Lloyds appointed forensic accountants to review the matter. It declined to make any interim payments while that review was taking place.

The forensic accountants reported in September 2024. They concluded E hadn't shown the projects it referenced would have gone ahead without the damage to the machines. They thought in each case there were other reasons they didn't proceed. As a result they thought E's post damage revenue was unlikely to have varied significantly from the amount earned in the previous year. Having considered that information Lloyds wasn't satisfied there was a loss here the policy could cover. And it didn't think E had shown the costs of outsourcing work were over and above those which it had previously incurred during the ordinary course of its business.

Our investigator reviewed the evidence and thought it was reasonable of Lloyds to say E hadn't evidenced the projects it referenced would have gone ahead but for the damage to its machines. He thought it was reasonable Lloyds had relied on advice from the forensic accountant and didn't think E had shown a loss in relation to its business interruption claim. He noted Lloyds had set out other concerns about, for example, underinsurance but didn't comment on these as there wasn't evidence of loss as a result of the damage. And while the claim had taken time to progress he didn't identify significant delay for which Lloyds was responsible. He didn't uphold the complaint. And he noted a complaint about the disclosure of information by Lloyds had been dealt with separately by our service.

E didn't agree. It made detailed submissions across a number of emails and in summary said:

- It disputed that after the claim was made Lloyds had ever visited its premises (as it claimed). Its records didn't show that had taken place. As the policy required it had been in continuous contact with its broker after the claim was made. And it provided all the information Lloyds requested but it didn't progress the claim. It thought Lloyds' poor handling had led to its losses increasing by the amount they did.
- The decision to repair the machines was based on advice Lloyds' loss adjusters provided (and was an attempt to mitigate the loss to Lloyds as the cost of replacement would be much higher). It hadn't been reimbursed for those repair costs or for the increased cost of working it incurred while those repairs were taking place.
- It explained in detail why it didn't agree with the position Lloyds had taken on the projects that didn't go ahead. It thought the reasons why that didn't happen were a result of the damage to its equipment and so these were losses that should be covered by its policy. Its claim was supported by a third party forensic accountant and the loss assessor it appointed. And they'd reached a different conclusion to those Lloyds appointed. It didn't think it was appropriate Lloyds hadn't disclosed the reports it received from the loss adjuster in relation to the claim.
- It questioned whether the forensic accountants Lloyds appointed had been provided with full information about the matter. And it said interim payments should have been made even if there were issues to resolve about the total amount of the business interruption claim that should be covered.
- The loss assessors and forensic accountants it appointed believed the case had been badly handled by Lloyds. And it outlined the impact the lack of support had on it and on its directors personally.

So I need to reach 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.

The relevant rules and industry guidelines say Lloyds has a responsibility to handle claims promptly and fairly. It shouldn't reject a claim unreasonably.

I appreciate this has been an extremely difficult experience for E. In particular it's told us about the health impact on one of its directors and that other staff have had to leave the business. I was sorry to learn about how challenging the period since the damage took place has been for it.

But the question I need to consider is whether Lloyds acted fairly and reasonably after E claimed on its policy with it. In doing so, while I have read all of the detailed points E has made, I don't think it's practical or in line with the informal nature of our service to respond in detail to all of them. Instead I've sought to focus on what seem to me to be the key issues; those where if Lloyds was at fault it would have impacted E to the extent Lloyds would need to do something to put things right.

Property damage claim

There's no dispute E's policy includes cover for property damage which says it will cover reinstatement. The definition of that includes the replacement of lost or destroyed 'Property Insured' and the repair or restoration of damaged 'Property Insured'. And following E's notification to its broker of the power incident at its premises Lloyds appointed loss adjusters.

I appreciate there's a dispute over whether a site visit took place at that time. E says its records don't show any sign of attendance. However, I've reviewed the loss adjuster's report from the time which does contain photographs from the site and records information that it says was provided at the time by one of E's directors (which wasn't Mr C). So I think it likely a visit did take place.

In any event I don't think this is key to the outcome. Following that Lloyds requested further information from E in order to progress the claim but despite sending a number of chasers (including through E's broker) Lloyds didn't receive a response until October 2023. E may well have been in contact with its broker and I appreciate its focus would understandably have been on maintaining its business. But in the absence of the information requested I don't think there was more Lloyds could have done to progress the claim at this time.

Following the contact E did make in October 2023 (via its broker) Lloyds requested further information and set out what was required. E did provide more details but that didn't enable Lloyds to progress the claim. E's broker said at the start of January they were struggling to understand exactly what E was claiming for and to obtain supporting details in relation to that. The broker suggested Lloyds make direct contact with E to try and resolve matters which it did. And it was then able to authorise payment for the replacement cost of the damaged machinery.

There does appear to have been a delay in that payment being made following authorisation as it didn't take place until March 2024. But looking at the overall history of the property damage claim I don't think there's significant avoidable delay here for which Lloyds is responsible. So I don't think there's anything it needs to do to put things right.

E said in response to our investigator's view that the decision to try and get the machines repaired was based on advice from Lloyds' loss adjusters. And it hadn't been reimbursed for the costs of those repairs. I've not seen clear evidence of such advice being provided to E; there wasn't any contact between E and Lloyds in the period during which the repairs were attempted. And E doesn't appear to have complained about those repair costs not being paid when it raised its concerns about the handling of the claim with Lloyds. So if those are amounts E thinks should be covered by its policy it will need to raise that with Lloyds separately.

Business interruption claim

The policy says "*in the event of Business Interruption the Insurers will pay to You in respect of each item in the Schedule the amount of loss resulting from such interruption or interference.*" Business Interruption is defined as "*loss resulting from interruption or interference with the Business carried on by You at the Premises in consequence of Damage to property used by You at the Premises for the Purpose of the Business*". Cover is subject to liability having been accepted or payment made by an insurance policy covering the damaged property.

E's policy schedule confirms it has business interruption cover with an indemnity period of 12 months and a sum insured for estimated gross profit of £900,000. The policy terms define estimated gross profit as "*The amount declared by You to us are representing not less than the Gross Profit or Gross Revenue which it is anticipated will be earned by the Business during the financial year most nearly concurrent with the Period of insurance*". And it defines Actual Gross Profit as "*The Gross Profit or Gross Revenue earned during the financial year most nearly concurrent with the Period Of insurance...*"

It's also a general claims condition of the policy that the insured must "*provide all the help and assistance and co-operation required by the Insurer in connection with any claim to include supplying, as soon as reasonably practicable, any supporting evidence and information that they require.*"

E said when it contacted Lloyds (via its broker) in October 2023 it wanted to progress a business interruption claim. In that and subsequent emails it provided some information about increased costs it was incurring and suggested there was a loss as of August 2023 of around £70,000. Lloyds set out in detail what would be required to support a business interruption claim and received a detailed report from E's then representatives in April 2024.

That suggested the loss was significantly more than previously suggested. That resulted from the inclusion of a number of projects E said would have gone ahead but for the damage to its equipment. Given the size of the loss I think it was reasonable that, after meeting with E to understand more about this claim, Lloyds decided to appoint forensic accountants to consider matters in more detail. I appreciate their report then took some time to be produced but given the need for them to obtain detailed information from E about the claim I don't think the timeframe here was unreasonable.

Their report was provided to Lloyds in September 2024. It concluded, in summary, that the projects E had referenced were unlikely to have gone ahead even if the damage to its equipment hadn't taken place. It didn't consider there was any loss of revenue which could be attributed to damage to the insured equipment. And it was on the basis of that report and those provided by its loss adjusters Lloyds concluded no claim for loss of estimated gross profit was payable under the policy. I recognise Lloyds hasn't provided E with copies of the loss adjuster's reports. But I think its claim decline and complaint response letters which were sent to E would enable it to understand the basis on which that decision was taken.

E has suggested the forensic accountants weren't in possession of full information about its claim. But I've not seen clear evidence to show Lloyds didn't pass on the material in support of that which E provided to it. In any event following their appointment the forensic accountants were in direct contact with E which provided further supporting information about the claim to it. If E felt there was additional material it wanted the forensic accountants to take into account it had the opportunity to provide it as part of that process.

I appreciate E disagrees with the conclusions the forensic accountants then reached (and with Lloyds' decision to rely on that report when declining to provide cover for its claim). But where an insurer has obtained an expert opinion it's not our role to substitute our opinion for the findings of that expert as we're not in a position to do so. What I need to do is to weigh up the available evidence and decide whether Lloyds acted fairly and reasonably on the basis of that evidence in the decisions it made about E's claim. That involves considering whether there are any obvious errors in the report it relied on and whether there's other evidence which is more persuasive and which Lloyds should reasonably have preferred.

I've reviewed the forensic accountants report and the comments E made in response to it. E says it appointed its own forensic accountants but I've not been provided with a copy of any response they provided to those appointed by Lloyds. And the report from the forensic accountants Lloyds appointed considers in detail the key projects E suggested would have gone ahead but for the damage to its equipment. In each case it identifies other reasons why that was unlikely to be the case.

In particular it found although E was already working on one housing project even if the damage to its equipment hadn't occurred that project wouldn't have progressed because the client (M) became insolvent (which its chief executive is reported as saying was due to investment problems). In relation to another project the evidence from the client was it didn't progress because of issues unrelated to the damage to E's equipment. And for the final project E identified the loss was speculative and any development would only have progressed once planning permission had been granted which was unlikely to have happened during the indemnity period covered by E's policy.

I find the comments from the forensic accountant persuasive and I think it was reasonable of Lloyds to attach weight to them (and further comments from the loss adjuster) in relation to the claimed losses in relation to these projects. And it doesn't appear E provided any expert opinion of its own which would challenge the advice Lloyds received. It did explain in response to our investigator's view why it felt the damage to its equipment meant these projects didn't go ahead but didn't provide any expert evidence in support of that.

I'm also not clear all of those arguments are in any case ones that have previously been put to Lloyds). For example, I can't see E has evidenced to Lloyds that it was asked to carry on the work it was doing for M by a different organisation or that it was unable to do that because of the damage to its equipment (the information it's provided suggests that took place after the machines had been replaced). And I've not identified a reference to a separate project which E mentioned to us in the evidence it provided to Lloyds.

E also says for the development which required planning permission it had carried out development work which it wasn't reimbursed for. But as well as having concerns about whether the development would have gone ahead the forensic accountants also had concerns about whether there was a proper contractual basis for this project at all. Overall, I think it was reasonable of Lloyds to conclude, based on the evidence it did have, there wasn't evidence of a loss in relation to the highlighted projects which resulted from the damage to E's machinery. Of course, if E is able to provide evidence from its own forensic accountant which calls that conclusion into question I'd expect Lloyds to review its position.

I've also considered whether there's evidence of a loss to E in relation to its normal trading activities. In the year prior to the damage taking place the forensic accountants identified its revenue to be around £813,000. E argued that would have increased but for the loss because of the amounts earned from the specific projects it highlighted. But for the reasons I've already explained I think it was reasonable of Lloyds to conclude they wouldn't have gone ahead.

And it therefore seems reasonable to conclude revenue wouldn't have significantly changed from the £813,00 figure. That amount would have been earned if the housing project E was providing for M had gone ahead (for which around £330,000 had already been paid). As that didn't happen there is a loss of revenue to E here. But I think Lloyds reasonably concluded that was because of M's insolvency and not the damage to its equipment. So I don't think this loss is one covered by E's policy.

Increased cost of working

The business interruption cover offered by E's policy does include cover for the *"additional expenditure (subject to the provisions of the Uninsured Working Expenses Clause) necessarily and reasonably incurred for the sole purpose of avoiding or diminishing the reduction in Turnover which but for that expenditure would have taken place during the Indemnity Period in consequence of the Incident but not exceeding the sum produced by applying the Rate of Gross Profit to the amount of the reduction in Turnover avoided."*

In this case Lloyds has accepted third party costs incurred by E in relation to the work it was carrying out for M (prior to its insolvency) were reasonable when compared to the revenue that project would have generated.

But it wasn't satisfied E had shown this was additional expenditure given it had paid the same third party for similar work prior to the damage to its equipment taking place. And I haven't seen that in response E provided Lloyds with any evidence to show these costs were over and above what would have been incurred during the normal course of its business. So I don't think it was unreasonable Lloyds declined to cover these amounts.

Interim payments

E believes Lloyds should have made interim payments while its claim was being considered and it made a number of requests for that to take place. Its policy says "*Payments on Account may be made during the Indemnity Period if required*". And I would expect Lloyds to consider making such a payment where the claim had been accepted (either in full or in part) but elements of the calculation or agreement on the final settlement remained outstanding.

In this case Lloyds did consider the requests but declined to make interim payments. I've thought about whether that was fair. E clearly believed it had suffered a loss as a result of the damage to its machinery. But it wasn't accepted by Lloyds that was the case. And the position on that remained unclear until the forensic accountants it appointed reported and concluded there was in fact no loss here that could be attributed to the damage. I do appreciate the difficulties that caused E but I don't think it was unreasonable in the circumstances of this case that Lloyds declined to make interim payments.

Conclusion

I recognise E feels this claim has been poorly handled by Lloyds and says that view is shared by the loss assessor it appointed. But having reviewed the full history of the claim I don't think there are significant delays or other customer service issues for which Lloyds is responsible. And for the reasons I've explained I think it was fair of Lloyds to decline to cover the business interruption claim E made on the basis it hadn't demonstrated its claimed losses resulted from the damage to its equipment.

My final decision

I've decided not to uphold this complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask E to accept or reject my decision before 7 May 2026.

James Park
Ombudsman