

The complaint

Mr F complains about the amount Aviva Insurance Limited paid to settle a claim he made on his buildings insurance policy.

Reference to Aviva includes its agents. Settlement figures have been rounded for simplicity.

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.

- Following fire damage to his buildings and contents, Mr F contacted Aviva. It accepted the claim and went on to offer £500,000 to settle it. This figure didn't include VAT. Mr F accepted the offer and the sum was paid.
- Later, Mr F arranged for work to be carried out and incurred VAT. He asked Aviva to reimburse £80,000 of VAT he'd paid.
- Aviva didn't agree to do so. Amongst other reasons, it said Mr F had made a legally binding agreement to accept the offer in full and final settlement of the buildings claim. It didn't include VAT and nor did it provide for reimbursement of VAT if later incurred. So Aviva wouldn't change the agreement and make a further payment.
- Our investigator thought the wording of the agreement was clear that Aviva's payment of £500,000 was in full and final settlement of the buildings claim. She thought it was fair and reasonable for Aviva to stand by that agreement. I agree, and for broadly the same reasons. I'll explain why.
- My starting point is the settlement agreement. It says, in summary, that Mr F accepts £500,000 in full and final settlement of the buildings claim, including all building repairs and reinstatement costs, under the buildings section of the policy. Mr F signed and agreed to it.
- I'm satisfied the agreement was clear that the full and final sum to be paid for the buildings claim was for £500,000 only. It didn't suggest VAT was included or could later be claimed. It didn't indicate that *any* amount could later be claimed. So I think it's quite clear that the wording 'full and final' meant exactly that – and no further payments in relation to the buildings claim could be expected for any reason.

- That means Mr F agreed to a full and final settlement of the buildings claim at £500,000. And Aviva has paid that sum. There's no suggestion he was misled, pressurised or coerced into agreeing to the settlement, such that it might be unfair for the agreement to stand. In these circumstances, I'm not satisfied it would be appropriate for me to interfere with the agreement made between Mr F and Aviva.
- I note Mr F says a full and final settlement doesn't prevent later payment of VAT where it wasn't included in the agreement. And this Service has repeatedly supported that position. But I don't think that's the case. If a clear and valid full and final settlement has been freely agreed between the parties, it would be unusual for this Service to interfere with that settlement.
- I note the other main points Mr F has raised. In summary:
 - The work he carried out, which incurred VAT, was necessary to provide suitable replacement accommodation following the damage. It didn't include improvements, betterment or the like.
 - VAT was incurred as a direct result of that work and is therefore part of his actual insured loss.
 - The purpose of the buildings insurance policy is to indemnify Mr F for his loss. As his loss includes VAT, it should be paid in order to indemnify him. The policy terms support this position.
 - Mr F isn't VAT-registered, so he can't recover the loss in other ways.
 - VAT formed part of the approved reinstatement cost, so it should have been part of the settlement.
 - As a lay consumer, dealing with the aftermath of significant fire damage to his home, he didn't appreciate that VAT would be excluded from the settlement.
- If the offer wasn't full and final – or I otherwise thought it would be appropriate to interfere with it – I would go on to consider these points. But, as I'm satisfied it wouldn't be appropriate for me to interfere with the full and final agreement, I won't.
- Ultimately, the terms of the settlement were clear and Mr F freely agreed to them. I also note he had professional representation during the claim. So, for the reasons given above, I'm satisfied Aviva was entitled to maintain the agreement and acted fairly and reasonably by declining to pay anything further.
- Aviva has also noted that Mr F's claim for £80,000 VAT indicates he spent £400,000 in total – assuming all work was charged at 20% VAT. If so, that would mean the total cost of the work, including VAT, was less than the £500,000 settlement Aviva has paid. Mr F hasn't said the total cost of the work was greater than £500,000.
- This is a key point. Because, *even if* I thought it would be appropriate to interfere with the agreement – which, for the avoidance of any doubt, I don't – in order to find Aviva should make an additional payment to Mr F, I would first have to be satisfied he's suffered a financial loss.
- If Mr F paid less than the £500,000 he received from Aviva, the simple fact is he doesn't have a financial loss. Therefore, *even if* I went on consider the offer, it's highly unlikely I'd find Aviva should make any further payment to Mr F.
- Overall, for the reasons given above, I'm satisfied Aviva has acted fairly and reasonably. So I won't require it to make a further payment.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 15 May 2026.

James Neville
Ombudsman