

complaint

Mr W is unhappy that Allianz Insurance Plc has reduced its proposed pay-out for his claim for subsidence under his commercial buildings policy, due to underinsurance.

background

Mr W made a claim to Allianz for subsidence damage at his property following the discovery of cracks to the floor. The claim was accepted but Allianz's loss adjusters calculated that the property was underinsured by a considerable amount. So it proposed to reduce the pay-out by the percentage by which Mr W was underinsured ("averaging"). Mr W thought this was unfair. He employed a local surveyor who calculated that the property wasn't underinsured. There was a substantial difference between valuations. Allianz's loss adjuster thought that its approach was reasonable, based on BCIS (Building Cost Information Service) rates. It agreed to obtain a further valuation. That came out lower than its loss adjuster's valuation but it agreed to use that figure. This was still substantially more than the property was insured for.

Mr W referred his complaint to this service. Our adjudicator thought that Allianz's approach was reasonable and supported by the policy terms. He took into account that Mr W bought his policy through a broker.

my findings

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

The dispute in this matter concerns the fair basis on which the property should be valued. Mr W says that his approach has always been to adjust the cost each year by the higher of the rate of inflation or local current building costs. When he took out the policy with Allianz, he used the previous policy value. But in setting that value he didn't use the BCIS index. He believes this approach is flawed because it takes into account average costs on a regional basis rather than local building costs.

But the insurer has to have an objective basis for calculating the rebuilding costs. The generally recognised approach taken by insurers is to use the BCIS index. Under the "*Basis of Settlement Adjustment*" in the policy it does say that the sums insured "*will be adjusted to take into account movements in the appropriate index*". Although it doesn't specifically say what the initial sum insured should be based on, I think it's clear that Allianz will use that index. As Mr W bought his policy through a broker, I would expect that he would be advised how to calculate the sum insured when setting up the policy.

Turning to the actual valuations, Mr W employed a local surveyor who calculated a sum insured but didn't use the BCIS index. Although Mr W has since produced a calculation from a surveyor using that index, I don't think the surveyor visited the property or carried out a full valuation.

Allianz used a valuation produced by its loss adjuster, and then agreed to use another valuer to produce a valuation. That came out as less than its initial valuation. I understand that Allianz has agreed to use the lower of its two valuations. I think this is reasonable

Allianz is only able to use averaging when the property is underinsured if there's a specific term in the policy allowing it to do this. There is such a term in this policy. So overall I think that Allianz's approach to the claim and its decision are fair and reasonable.

my final decision

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 9 March 2016.

Ray Lawley
ombudsman