

complaint

Mr and Mrs H complain that UK Insurance Limited (UKI) listed the wrong number of bedrooms for their property which led to them being overcharged for their home contents insurance.

background

I issued a provisional decision on this complaint earlier this month, a copy of which is attached to this final decision.

UKI replied to my provisional decision to say that it had no further comment to make other than to reiterate that regardless of how the rooms were used, Mr and Mrs H's home is a seven bedroomed property and for underwriting purposes needed to be rated as such. UKI said it looked forward to receiving my final decision.

Mr H replied to my provisional decision with lengthy comments. Much of what he said already formed part of his complaint and had been considered by me prior to issuing my provisional decision. Insofar as he made any new points these were that:-

- They were unhappy with UKI's intention to rate their policy at the next renewal on the basis it had seven rather than two bedrooms. They said if we hadn't told them about this they would never have known. This was both unprofessional and inefficient;
- UKI hadn't made an error in altering the bedroom count from seven to two and its implausible that it said it had done given the number of conversations about the issue with them over the years. It should've known the house had just two bedrooms;
- They were never told that the number of bedrooms impacted the premium charged and UKI had a duty to explain to them how it assessed risk;
- The renewals team must've spoken to underwriters before agreeing to reduce the number of bedrooms to two. If they had not complained, UKI may never have referred the bedroom issue to its underwriters;
- It should be clear from the telephone conversations why UKI changed the bedroom count – it wasn't at the insistence of Mr H;
- Had they stated at the very outset that the property just had two bedrooms UKI would've recorded it as such and charged the appropriate premium. If this had happened the problem wouldn't have arisen;
- They hadn't insisted UKI backdate the premiums prior to the re-categorising the number of bedrooms. UKI had suggested doing so when it found that past premiums were based on their being too many bedrooms at the property;
- It made no sense for Mr H to have said to UKI, "**you've marketed it as seven**" in December 2015. Mr H meant to say *'it has been/you have marked it as seven'*;
- As they weren't professional estate agents they couldn't be expected to know the number of bedrooms the property would be marketed as having. If UKI had asked them their opinion on the number of bedrooms they thought the property would be marketed as having they would've said 2-3 on the basis it would be misleading to classify three linked rooms and an attic room as bedrooms;
- They had no idea that the contents of a room would attract a much higher premium if its use was classified as 'bedroom' instead of 'storage'. This was a contents policy so the value of the contents was the same whether they were stored in bedrooms or not. The size of the property is more relevant to buildings insurance cover;
- Underwriters aren't in position to be certain as to the number of bedrooms the property has without seeing it;

- They hadn't thought – until discovering this year that the number of bedrooms affected the premium – that the absence of the bedroom count from the renewal documents would've materially disadvantaged them;
- UKI refers to the *usage* of the upstairs rooms instead of their *suitability* as bedrooms.
- UKI never discussed with them the floor area or the way it was divided until a few months ago. And the fact the bedroom count was omitted from the renewal documents meant they didn't know on what UKI based its premium calculation;

The complaint was passed back to me for a final decision.

my findings

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

I can only base my decision on the evidence I've seen. Having done so, I still don't think this complaint should be upheld for the reasons set out in my provisional decision. Mr and Mrs H's response to that decision has been comprehensive and I'll address each of the new points they've made in turn. Insofar as they have repeated comments made prior to my provisional decision, I don't intend to comment further on those. That's because I've done so fully in that decision and my opinion remains unchanged.

My understanding is that it was our adjudicator's opinion that this complaint should be upheld that led to UKI referring the matter to its underwriters for comment. It was at this point that underwriters said a mistake had been made and that it would need rectifying at the next renewal in order that Mr and Mrs H didn't find themselves underinsured (in the event of making a claim). As Mr and Mrs H's complaint was with this service, UKI wouldn't be expected to contact Mr and Mrs H directly anyway. So I can't agree that UKI's conduct in this respect has been unprofessional or inefficient or that it has deliberately sought to withhold this information from them. Any changes in cover at renewal would be communicated to Mr and Mrs H at that point. It would then be for them to decide whether to accept any terms offered.

UKI has said that when Mr and Mrs H took the policy out they were asked how many rooms there were upstairs other than bathrooms. Both parties agree that the answer to this question is 'seven'. How those rooms are used, or can be used, wasn't a factor UKI took into account when assessing the risk it was taking on. I've seen the underwriting evidence about how rooms converted for alternative uses are rated. As I explained previously, I'm satisfied that if there is any dispute, UKI looks to establish the count based on how the property would be marketed. Mr and Mrs H have been asked to provide evidence to support their position that despite having seven rooms upstairs the house is a two-bedroomed one. That evidence hasn't been forthcoming.

I wouldn't expect – or require – an insurer to explain to a policyholder what factors it'd taken into account when calculating the premium and what impact the rating of those factors had on the premium. So I don't think it's unreasonable that UKI didn't tell Mr and Mrs H that the number of bedrooms impacted the premium charged, nor is it required to explain to policyholders how it assesses risk.

I don't know if the renewals team spoke to underwriters before agreeing to reduce the number of bedrooms. But I can see that when the number of bedrooms was discussed earlier this year, UKI said it could only act on the information it was given. That was that the

property had seven upstairs rooms. It said that if Mr and Mrs H wanted to reduce that to two then they would need to find out how many bedrooms the property would be marketed as having. UKI made it clear that it couldn't decide that for them. I agree that it is possible that if Mr and Mrs H hadn't complained then UKI may never have referred the matter to their underwriters. But they did and it has. And I don't think its decision to restore the room count to seven is unreasonable.

UKI changed the bedroom count to two at the request of Mr and Mrs H.

My understanding is that Mr and Mrs H told UKI at the outset that they used just two of the rooms as bedrooms. But they also had to answer a question about the total number of upstairs rooms. That factor was taken into account when the premium was set. So I can't see that there has been any error in the way the premium was calculated. If they had told UKI at the outset that there were only two upstairs rooms (and UKI had rated the policy on that basis), and they had subsequently made a claim, they could, at that point, have found themselves significantly underinsured.

I can only base my decision on the evidence that's before me. It seems to me that once UKI agreed to Mr H's request to reduce the bedroom count to two he then said he thought that he'd paid 'over the odds' in previous years and wasn't happy that UKI wouldn't consider backdating the change in bedrooms and giving him a refund.

In my provisional decision, I said that if Mr H had meant to say '*marked*' then I'd have expected the sentence he used to have been '*you've marketed it as seven*'. That's because saying '*you've marked it as seven*' is, I think, more likely than '*it was marked as seven*', if '*marked*' was the word Mr H meant to say. Mr H agrees – he says that he meant to say '*it has been/you have marketed it as seven*'. So Mr H has said he meant to say '*marked*' not '*marketed*' and also he meant to say '*it has/you have*' instead of '*it was*'. But he actually said "*goodness, I don't know, we don't use all of them as bedrooms. It was marketed as seven*". It's not unreasonable to think, in response to the question he was asked by UKI at the time, that he meant what he said. And it's not unreasonable to base my decision on what was actually said.

Neither this service, nor UKI, would expect Mr and Mrs H to have the knowledge of a professional estate agent. But they were invited to submit independent evidence about the number of bedrooms the property would be marketed as having. Unfortunately they haven't done so. They've said that if UKI had asked them then they would've said 2-3. As can be seen from the quote above, UKI did ask them in December 2015 how many bedrooms they thought they property had. I've also seen that they were asked this during subsequent telephone calls.

UKI calculates the premium for the risk it's insuring based on numerous factors. Clearly, at the outset, the number of upstairs rooms was one such factor. The use of those rooms wasn't relevant but the fact they existed was. The size of the house, even for contents insurance, is typically a relevant factor for insurers. Mr and Mrs H were required to answer the question they were asked truthfully and they did. The policy was priced accordingly. Of course underwriters can't be certain how many bedrooms (or upstairs rooms) a property has without seeing it. That's why they ask the questions they do and rely on the answers they are given.

I fully accept that Mr and Mrs H told UKI at the point of sale that they only used two of the rooms as bedrooms. I also fully accept they repeated this fact a number of times in the following years. It seems to me from the available evidence that the fact they did was of little

interest to UKI. I can see that in January 2017 when Mr H raised the bedroom issue during a phone call with UKI he was asked (again) how many rooms there were upstairs and he said seven but only two were used as bedrooms.

I don't think that Mr and Mrs H have been materially disadvantaged by the fact the number of bedrooms didn't appear on their renewal documents. That's because, if it had, it would've said seven. That's because Mr and Mrs H told UKI there were seven upstairs rooms, which is the case.

How UKI refers to the upstairs rooms is its choice and not something this service would look to interfere with. It's up to UKI how it rates the risks it takes on. It will take numerous factors into account when doing so and will rate those factors accordingly. The factors used and how they are rated vary from insurer to insurer. UKI has said that how the property was marketed for sale is what's relevant regardless of whether some of the rooms were left empty, used for storage or made into a study or games room.

Mr H says that he never discussed the floor area of the house with UKI or how that floor area was divided up until a few months ago. But in an email to our adjudicator, Mr H said *"The size of the property has been known to the insurer from the outset because I advised the floor area to be 252m2 and that there are 7 rooms that are not on the ground floor which are not bathrooms..."*.

So it seems to me that Mr H had told UKI how big the house was at the very start. In any event, this isn't in dispute. UKI rated the policy accordingly and charged a premium based on that information. I can't say it's acted unfairly in how it did so. The fact that Mr and Mrs H may've used some of those rooms for storage isn't relevant. They told UKI the property had seven upstairs rooms at the outset. They also, it appears, told UKI the exact size of the house. When they subsequently asked UKI to record the property as having two bedrooms, UKI explained that the use of the rooms wasn't of relevance. UKI explained that only Mr and Mrs H could tell it how many bedrooms it had and if they wanted UKI to reduce the number it had recorded then they would need to tell UKI how many bedrooms the property would be marketed as having. Mr and Mrs H said they didn't know but would guess at 2-3. UKI invited them to submit some independent evidence (say from their landlord) which would support that. That evidence was never forthcoming.

So, I don't think UKI has done anything unreasonable here except for mistakenly reducing the bedroom count to two in January 2017, and partially refunding Mr and Mrs H's premium. UKI has admitted it shouldn't have done this and, as a consequence, was knowingly underinsuring the risk. As the mistake was UKI's, it put the risk back to seven bedrooms but didn't ask Mr and Mrs H to repay the refund. I think this is reasonable.

my final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs H to accept or reject my decision before 1 September 2017.

Claire Woollerson
ombudsman

PROVISIONAL DECISION

complaint

Mr and Mrs H complain that UK Insurance Limited (UKI) listed the wrong number of bedrooms for their property which led to them being overcharged for their home contents insurance.

background

Mr and Mrs H took out contents insurance with UKI when they moved into their rented home in 2008. When they took the policy out, UKI asked Mr and Mrs H how many rooms there were on the first floor that weren't bathrooms. Mr and Mrs H said there were seven but that they were only using two of them as bedrooms. UKI recorded the number of bedrooms at the property as seven. The number of bedrooms – seven – was also the answer to one of UKI's security questions when Mr or Mrs H rang in.

Over the years, Mr H rang UKI on a number of occasions. When he was asked the bedroom security question he answered, 'seven'. He told UKI on a number of occasions that this wasn't the actual number of bedrooms at the property. During one conversation in December 2015, Mr H told UKI that the property would be 'marketed' as having seven bedrooms.

UKI sent Mr and Mrs H their 2017/2018 renewal pack in mid-December 2016. Unhappy with the increase in premium, Mr H called UKI. UKI said it would call him back but didn't. Mr H called again in January 2017. It was during this conversation that Mr H spoke to UKI once again about the number of bedrooms in the house. Mr H explained the long running background to this issue. UKI told him that if the number of bedrooms were changed then it could look to review the past annual premiums Mr and Mrs H had paid. Mr H said the property actually had just two bedrooms, so UKI reduced the 2017/2018 premium accordingly.

Mr and Mrs H complained to UKI. They said UKI should have rectified the bedroom number issue back in 2008. They said that if it had, then they'd have been paying much lower premiums ever since. They said they wanted UKI to assess whether they'd been overpaying for their premiums since 2008 and refund those they'd overpaid. They also wanted an apology from UKI for not correcting the bedroom number earlier and compensation for the stress and inconvenience all its failures had caused them.

UKI looked into Mr and Mrs H's complaint. It said it hadn't promised to backdate the change in the number of bedrooms but only to review the matter. Having done so, it said that during the December 2015 call it asked Mr H how many bedrooms the house had and he'd replied that it was 'marketed as seven'. It said that as this answer correlated with the records it held, it saw no reason to query the matter. Consequently it wouldn't be looking to backdate the change and refund any premiums. Separately, UKI did pay Mr and Mrs H £75 compensation for failing to return Mr H's December 2016 call.

Unhappy with UKI's conclusions, Mr and Mrs H complained to this service. Our adjudicator investigated their complaint and recommended that it was upheld. He recommended that UKI recalculate Mr and Mrs H's premiums from 2008 on the basis their property had just two bedrooms and refund the difference together with interest at our usual rate. Mr and Mrs H accepted our adjudicator's findings but UKI didn't.

UKI referred the matter to its underwriters. They said an error had been made in agreeing to provide cover for 2017/2018 on the basis that the house only had two bedrooms. It said that in order to continue insuring Mr and Mrs H it needed to assess the risk based on the property having seven bedrooms. As a gesture of goodwill it said it would leave the 2017/2018 premium unchanged, but it wouldn't be offering the policy for renewal unless it was on the basis it had seven bedrooms.

In response, Mr and Mrs H said the number of rooms and their use hadn't changed since they moved to the property. They said UKI should've referred the matter to its underwriters before issuing its final response to their complaint rather than at this late stage. They sent our adjudicator evidence from two estate agents marketing the same property but each with a different amount of bedrooms. They said that this showed the inconsistencies in property marketing and the fact that it should have no bearing on how an insurer classified rooms when calculating the cost of a policy. Finally they said that none of the renewal notices they'd received cited the number of bedrooms the house had despite UKI saying they did.

The complaint was passed to me for a decision.

my provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Although I appreciate that it will come as a disappointment to Mr and Mrs H, I don't think their complaint should be upheld. I'll explain why.

When calculating the price of Mr and Mrs H's policy, UKI will have taken a number of factors into account. These will have included postcode, claims history, property size, number of bedrooms etc. UKI will also consider the total number and value of claims it thinks they're likely to make in that year. And it'll also factor in its administration costs and profit requirements. Each year, UKI's entitled to reassess these factors when setting the price of its policies. So prices can go up or down, depending on what it thinks the risks are that year for all of its customers.

UKI has shown us that the number of bedrooms a property has is a rating factor it uses to calculate home insurance premiums. I'm afraid I can't share that information with Mr and Mrs H because it is commercially sensitive, but I'd like to reassure them that I've checked it very carefully. Having done so, I'm satisfied that the way the property would be marketed for sale is how UKI assesses the number of bedrooms. I'm also satisfied that the number of bedrooms a property has is a rating factor for UKI.

Mr and Mrs H were asked in 2008 – when they took the policy out – how many rooms there were on the first floor that weren't bathrooms. They said 'seven'. I've seen an online street map view of the property. Having done so, judging by the size of the property, it's reasonable to assume that the answer they gave to this question was correct.

I have no reason to doubt that Mr and Mrs H use only two of the seven upstairs rooms as bedrooms. I also accept that the property is of the type which could have linked rooms upstairs. But UKI has shown us that it one of its rating factors is how many bedrooms a property has. And it's shown us that to do so it will ask how many bedrooms the property would be marketed as having.

UKI no longer has the sales call from 2008. But it does have the call from December 2015. I've listened to that call. Mr H is asked how many bedrooms the property has and says:

“goodness, I don’t know, we don’t use all of them as bedrooms. It was marketed as seven”. I’ve thought about what Mr H has said subsequently about this statement. He said that he didn’t mean to say ‘marketed’ but ‘marked’ as in ‘marked on UKI’s records’. Having listened to the call though I’m not sure why he didn’t say **‘you’ve marketed it at seven’**. Instead he says, **‘it was marketed as seven’**.

So, it’s not in dispute that Mr and Mrs H told UKI in 2008 that there were seven upstairs rooms, and in December 2015 that the property had been marketed as having seven bedrooms. So I don’t think it’d be reasonable for me to say that UKI had treated Mr and Mrs H unfairly by rating their property until January 2017 on the basis it had seven bedrooms. That’s because, even if Mr H meant to say ‘marked’ UKI can’t be expected to have known that.

I can see that Mr H called UKI in December 2016 to discuss the cost of the forthcoming renewal. There then followed several conversations in January 2017 about the increased cost and the amount of bedrooms. UKI asked Mr H to send in evidence from his landlord about the number of bedrooms at the property. I understand this was never received. I can see that during a call on 26 January 2017, Mr H was asked how many bedrooms the property would be sold as having. He said it wasn’t his house so he didn’t know. On 27 January Mr H called UKI again in response to a survey he’d done after his previous call. It was during this call that UKI changed the number of bedrooms to two. It isn’t clear to me why it did so given the numerous previous discussions about the matter and its previous insistence that proof be provided. It seems it did so at the insistence of Mr H.

As a result of changing the number of bedrooms, the policy was re-rated and a refund of £155.50 was given to Mr and Mrs H. It seems at this point, Mr H felt he must’ve been paying too much during previous years as well. But, as I’ve set out above, I don’t agree.

In response to our adjudicator’s view upholding the complaint, UKI referred the matter to its underwriters for comments. They said that the adjustment from seven to two bedrooms was incorrect. They felt the bedroom count should’ve been left at seven. They referred to the size of the property on the online street map. Underwriters said that whilst Mr and Mrs H may only be using two of the rooms as bedrooms, the other five rooms would still be marketed as such in the event of a sale regardless of their current use.

UKI has said it made a mistake by agreeing to adjust the bedroom count. It’s said that the number of bedrooms should be restored to seven and an additional premium paid. Because it made the mistake, it has said it will override that requirement for this policy year. But at renewal it will require the number of bedrooms at the property to be restored to seven (and the premium calculated accordingly) or it will decline cover. I think this is fair.

I don’t think that assessing the number of bedrooms on the basis of how a property would be marketed is unreasonable, regardless of how policyholders may choose to utilise them. I’ve thought about the fact the renewal documents didn’t cite the number of bedrooms but I don’t think that it caused Mr and Mrs H to be in anyway disadvantaged. That’s because in 2008 they said the property had seven rooms upstairs and that’s what UKI had recorded and which remains the case.

UKI is entitled to assess the risk according to its own criteria. I’m satisfied that, in this case it has done so fairly and has treated Mr and Mrs H in the same way it would’ve treated any of its other customers in similar circumstances. I don’t think, on balance, it would be fair for me to say that UKI has treated Mr and Mrs H unreasonably. So I don’t think this complaint should be upheld.

my provisional decision

My provisional decision is that I don't uphold this complaint.