

## **complaint**

Mrs A has complained that Aviva Insurance Limited didn't accurately calculate how much it would cost to rebuild her property for her buildings insurance policy.

## **background**

In 1998 Mrs A took out buildings insurance with a company which later became part of the same group as Aviva. She said the rebuilding cost of her property was £130,000.

Aviva and its predecessor reviewed the sum insured every year by using an index which tracks rebuilding costs and this mostly resulted in an increase to the sum insured. On six occasions from 2006 Mrs A didn't think the rebuilding costs were correct and she asked Aviva to change the sum insured.

Fortunately Mrs A didn't have to make a claim under the policy. But Mrs A's son was concerned that his mother might have been insuring her property for more than the actual rebuilding costs and as a result had been paying higher premiums. So he asked Aviva for a copy of the index figures for the years from 1998 to 2012 so that he could check the calculations himself.

Aviva calculated what the sum insured had been each year from 2001 (their records didn't go back any further) to 2012 based on the index. As a result of further queries from Mrs A's son, they realised that their first table was incorrect because the policy had been adjusted in 2008 which affected the calculations. They sent Mrs A revised figures. Eventually Aviva also obtained the index linking figures for the years 1998 to 2001.

Mrs A's son came to the conclusion that Aviva hadn't calculated the rebuilding costs accurately. On behalf of Mrs A he asked Aviva for a refund of the excess premiums she'd paid and compensation for the inconvenience and distress caused as well as for the time he'd spent.

Aviva explained that the purpose of index linking is to increase the buildings sum insured in line with rebuilding costs to ensure that customers are never underinsured. It pointed out that customers are not obliged to accept the figure shown in the renewal notice. It apologised for confusing Mrs A's son with incorrect calculations and offered compensation of £100.

As Mrs A wasn't happy with that, she complained to this service. Our adjudicator provided his own calculations which Mrs A's son agreed with. Our adjudicator didn't recommend that the complaint be upheld because he saw no evidence to suggest that the sum insured was too low or that Mrs A had suffered financially as a result of Aviva's calculations. He thought Aviva's offer of compensation of £100 was appropriate in the circumstances.

## **my findings**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. In particular I've reviewed the helpful calculations and explanation provided by Mrs A's son and our adjudicator.

The sum insured on a buildings policy is usually the amount it will cost to rebuild the property. I accept that it isn't always easy to work out how much a rebuild might cost. Policyholders often do their best to have a figure which is as accurate as reasonably

possible when they take out a policy but if they stay with the same insurer it's often convenient for them to have index linked cover. Then the amount of cover automatically increases in line with the cost of rebuilding. Even so, most insurers say that you shouldn't rely on index linking alone to keep the sum insured up to date and it's almost always the responsibility of the policyholder to ensure that the sum insured is appropriate. That was the case with Mrs A's policy.

Mrs A's policy stated that Aviva would update the sum insured on renewal each year *"in line with any increase in the level of House Rebuilding Cost index or any suitable alternative index we choose."*

The new sum insured and renewal premium were shown each year on the renewal notice which was sent to Mrs A. The renewal notice also shows which index Aviva used to work out the increase. The notice asked Mrs A to check that the sum insured was adequate.

When Mrs A's son wanted to check the index linking calculations, it wasn't straightforward for Aviva to produce these accurately. There were quirks in Aviva's system which meant that some renewals were based on a different month from that used in the previous year. Since Aviva gave Mrs A's son incorrect information about the index linking, it caused him a great deal of inconvenience and extra work as he had to re-check the calculations. Aviva has apologised for this and offered £100 compensation which I think is fair and reasonable in the circumstances.

Our adjudicator calculated what he thought to be the correct sum insured from 1998 to 2013 based on the index linking increases over that period. From comparing our adjudicator's figures with Aviva's, I can see that over the period from 1999 (the first year of index linking) to 2005 the sum insured was higher than our adjudicator thought it should have been by applying index linking. The difference varied from year to year by up to £1,235.

I can understand that it would be annoying to discover that you'd been insuring your property for a higher amount than you needed to and so might have been paying higher premiums. However that isn't necessarily the case here. As a result of the work done by our adjudicator I can see what the sum insured would have been from 1999 to 2006 if index linking had been applied correctly. But the index linking figures are only a guide. I don't know whether the true rebuilding cost over that period was higher or lower than the sum insured. That means I don't know whether Mrs A was paying more in premiums than she needed to.

Aviva says that Mrs A wasn't obliged to accept the sum insured which they notified her on renewal. It specifically asked her to check that the figure was correct. She didn't always agree that it was correct as can be seen from the fact that from 2006 onwards there were several years when Mrs A asked Aviva to change the figure.

So I don't think Aviva treated Mrs A unfairly by the way they applied the index linking to calculate the sum insured because it wasn't guaranteed to be accurate and it was Mrs A's responsibility to check it. There's also no evidence to suggest that she was actually over insured.

### **my final decision**

My final decision is that I do not uphold this complaint and I make no award against Aviva Insurance Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 21 September 2015.

Elizabeth Grant  
**ombudsman**