

complaint

Mr and Mrs G complain about the settlement of their burglary claim by Royal & Sun Alliance Insurance Plc (RSA).

background

Mr and Mrs G had home insurance on a rental property they owned. In 2014, they made a claim for damage caused when the property was broken into. The claim was originally declined, but, following a complaint to this service, RSA agreed to deal with it (including loss of rent).

RSA instructed loss adjusters who inspected the property and reviewed two quotations (which were for £32,500 and £29,450) Mr and Mrs G had obtained. The loss adjuster said that the quotations included costings for damage that wasn't associated with the claim. He also raised other concerns, in particular that one of the quotations had been produced without an inspection.

RSA estimated the repair costs to be £10,235 and said that the property was underinsured by at least £81,000 (ie the rebuild cost specified on the policy was too low). RSA therefore applied the 'average clause' and reduced the offer to reflect the amount by which the property was underinsured. It offered Mr and Mrs G £3,000 for loss of rent and £6,210.55 for the repairs, minus £500 excess. This totalled £8,710.55, subject to the repairs going ahead and invoices being presented. Alternatively, it offered £7,000 cash. It has also paid £500 compensation for its failings associated with the original declinature of the claim.

As a further alternative, RSA offered to send a surveyor to attend the property with an approved contractor to reassess the damage and produce a further scope of work/costings, adding that underinsurance would remain an issue. It also offered to re-evaluate the rebuild costs

Mr and Mrs G have complained to this service. They aren't happy with RSA's offer and believe that they are entitled to more than £500 compensation. They complain that their broker told them that the rebuild figure was correct when they took out the policy and that the property has been unoccupied since the break in in January 2014, costing them £500 per month in lost rental income. They want the claim to be settled in full, including an increase to the settlement for loss of rent.

Our adjudicator felt that RSA's offer to send its surveyor and an approved contractor to inspect the damage and produce a new scope of works/repair costs was reasonable as was its application of the 'average clause'. He also said that £500 compensation was fair and reasonable and that any complaint concerning the sale of the policy would need to be made against the broker.

Mr and Mrs G have asked for their complaint to be reviewed by an ombudsman because they maintain that they haven't been treated fairly.

my findings

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

mis-sale

Because the policy was sold by a broker, it's right the any complaint about the sale of the policy would need to be against the broker. Therefore, for the purposes of this complaint, I am unable to consider what the broker told Mr and Mrs G about the rebuild cost when they took out the policy.

compensation

RSA offered £500 compensation for its failings associated with its original decision to decline the claim. In my view, this is fair and reasonable and it appropriately addresses the impact its decision to decline the claim had on Mr and Mrs G.

loss of rent

Mr and Mrs G want £500 per month for loss of rent from January 2014. RSA has offered £3,000 (this represents six months of rental payments), arguing that they failed to mitigate their loss by not having the repairs done.

I have found that the offer that RSA made in February 2015 was fair and reasonable (see below) and therefore I don't think that it's responsible for any loss of rent occurring after that date. Before that point, I don't think it's fair to suggest that Mr and Mrs G have failed to mitigate their loss by not having the repairs done because I don't have any information about their financial situation. A claim of that nature could reasonably be expected to take several months to resolve, therefore if this claim had been handled properly from the start, it would have been resolved in less than six months. However, I note that there were no tenants in occupation at the time of the break-in and it would have taken some time to get new tenants had the break-in not occurred. Some loss of rent would therefore have been inevitable. In these circumstances, I find that RSA's offer of £3,000 for loss of rent is fair and reasonable.

repair costs

RSA's offer for repairs was based on costings produced by its surveyor. It disregarded the two quotations submitted by Mr and Mrs G because it thought they included costings for repairs which weren't associated with the claim. I understand that one report had been produced without an inspection and that the loss adjuster was unable to verify the other one. Because RSA has raised concerns about the two estimates and Mr and Mrs G haven't produced any evidence or information to counter those concerns, I find that it was fair and reasonable for it to have disregarded them, particularly as it has offered Mr and Mrs G the option to have the repair costs assessed further.

Our adjudicator felt that RSA's offer for its surveyor to attend the property with an approved contractor is reasonable. Mr and Mrs G feel that the offer is unfair but, as their estimates have been called into question, they have been unable to demonstrate this. In these circumstances, I agree that RSA's offer is fair and reasonable. Following a re-assessment of the repair costs, Mr and Mrs G will be able to decide whether to use the approved contractor or accept a cash settlement. I must add that if Mr and Mrs G wish to use the contractor, it's right that they will have to make up any shortfall created by the underinsurance issue.

underinsurance

The policy states that *'the liability of insurers shall not exceed such proportion of any loss of damage as the sum(s) insured bears to the full cost of reconstruction in its present form for each premises separately stated in the schedule'*. This means that if the building was insured for less than it would cost to rebuild (here, RSA's surveyor has said that it would cost £206,000 to rebuild and it's insured for £125,000), RSA will reduce the settlement figure to account for this. This is often referred to as an 'average clause'.

In calculating its offer, RSA applied the 'average clause' to its surveyor's costings, arriving at £6,210.55. I am satisfied that the clause was properly applied and that the calculation was done fairly. I therefore find that its offer is fair and reasonable.

However, there remains a dispute about the rebuild value of the property. RSA's surveyor has said that the property was insured for £81,000 less than the actual rebuild value. Mr and Mrs G have submitted evidence that the rebuild value of the property is £155,000 but this evidence is disputed by RSA. It argues that the calculation is based on the property having one floor rather than two floors and a partial cellar. It has said that it's willing to re-attend the property and re-measure the building to provide a fresh rebuild assessment and in the circumstances, I find that this is a fair and reasonable way to resolve the dispute.

my final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs G to accept or reject my decision before 30 December 2015.

Carolyn Bonnell
ombudsman