

complaint

Mr L as a director of T is unhappy that Allianz Insurance Plc will only settle a part of their claim for theft under their commercial policy. This is because the stock was underinsured.

background

In August 2013, T's premises were broken into and a number of items of stock were stolen.

Initially, Allianz wouldn't pay the claim because an alarm hadn't been installed – a requirement of the policy. However Allianz then decided it would consider the theft claim.

The loss adjuster decided that the stock sum insured wasn't sufficient compared to the total value of the stock at risk. So Allianz paid only part of the amount claimed. Mr L didn't accept the reduction, stating that he had always underinsured thinking they would never have to make a claim for the full amount of stock. Also, he says that it was never explained that the correct value for insurance purposes should be based on the total value of the stock. He complained that this is not made clear in the policy documents.

my findings

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

First of all I must decide whether T can be described as an "*unsophisticated*" commercial business. If it can, then I must regard its directors as ordinary consumers with no expert knowledge of insurance. For example a large business with a developed structure which is advised by lawyers and brokers would be "*sophisticated*". Here there was a small business with, according to its accounts, a modest turnover. Mr L had been arranging their insurance since 2010. The insurance was arranged through the bank and was sold "non-advised". I can't see that he had easy access to expert knowledge or advice. I think that T is an "*unsophisticated*" business.

It's plain that T's stock was underinsured. Mr L says this was because he thought he only needed to insure the amount of stock he needed to insure. He also says he wasn't aware of the "*averaging*" term in the policy. This allows the insurer to settle any claim only in part where it's not fully insured.

The "*averaging*" clause is common, and I don't think that the full details need to be pointed out to a consumer. But I do think that an insurer should make it clear that the policyholder must insure for the full value of their building or stock. Also, that there's a risk of any claim being reduced. The adjudicator listened to all the telephone calls and couldn't find that those factors were explained to Mr L. I note that Mr L was asked "*how much he would like for stock*", and at another time "*how much stock cover he'd like*." I think this invited him to set a figure on the sum he'd like insured rather than the total value of the stock. As this wasn't followed by any warning about underinsurance I think it would be unfair for Allianz to reduce the claim.

I've taken note of Allianz's comments about not being able to tell consumers about every policy clause and not knowing whether a business is sophisticated. But I do regard it as standard practice and an approach this service has followed for many years. Since most policyholders are, I would think, consumers, it shouldn't give it too much difficulty.

So, overall I conclude that it was unfair to reduce T's claim because it was underinsured. Allianz should pay the balance of the claim.

my final decision

My final decision is that I uphold the complaint. I direct Allianz Insurance Plc to:

- pay T the amount previously deducted from its claim because it was underinsured.
- add interest at 8% per annum, simple, from the date of claim until the date of payment.

Under the rules of the Financial Ombudsman Service, I'm required to ask the directors of T to accept or reject my decision before 24 August 2015.

Ray Lawley
ombudsman