

complaint

Mr and Mr B are unhappy with the way that U K Insurance Limited (UKI) has reduced their claim for fire damage under their commercial farm policy.

background

Mr and Mr B suffered a fire at their farm premises. A farm building, machinery and a substantial amount of produce were destroyed or damaged beyond recovery. The claim was accepted and a pay-out agreed for the building and the items damaged. UKI found that the cover for farm and shop revenue was substantially underinsured. It reduced the claim by applying an “*averaging*” clause whereby the amount paid out was reduced in proportion to the amount by which it was underinsured. Mr and Mr B accepted this for the farm and shop produce but there was a figure for clearing “*debris*” of over £50,000. This was because a substantial crop of potatoes was contaminated by asbestos from the building and had to be removed safely.

UKI applied the averaging clause to the debris removal. It said that under the policy, debris removal is a part of the cover for revenue. It therefore reduced the pay-out for debris removal. Mr and Mr B's broker argued that this was unfair as debris removal was an extension to the policy. Separate averaging clauses applied to each section of the policy and, he argued, debris removal didn't have an averaging clause, so UKI shouldn't apply it. At best whether it came under revenue was unclear and the policy should be read in favour of the policyholder. He also pointed out that Mr and Mr B couldn't possibly have been expected to allow such a large sum to be included in calculating the amount of revenue to be insured.

On referral to this service our investigator thought that it was clear that debris removal was included under the revenue cover and said that UKI had acted fairly in reducing the pay-out for debris removal.

The matter has been referred to me for a 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.

If any part of the cover in a policy isn't insured for a sufficient amount the insurer will reduce the claim proportionately by the amount it is underinsured. It can only do this if there is a clause in the policy allowing for this. The policy here has several different sections of cover and there are different averaging clauses that apply to each section. Mr and Mr B's broker has pointed out that this is confusing and they are unsophisticated buyers of insurance. Nonetheless I note that this policy was bought through a broker who had an underwriting arrangement with UKI. I don't think it can be said that they were forced to buy a complicated policy – it was clearly drawn up to reflect the needs of their business.

Under the policy there is a section headed “Revenue” at the end of which it says “The following clauses apply to this section. Clause 4 is “*Debris Removal*”:

“The sum insured for each item on Revenue includes costs and expenses You incur...for the removal of debris of the part or parts of agricultural produce, growing crops and livestock for sale, included within the revenue insured by this section.”

I don't think that debris removal is separately insured. The above clause makes clear, I think, that debris removal is included in the revenue section of the policy. I don't think it's ambiguous. So I think it's fair for UKI to reduce the claim in the way that it has.

I note that the cost for removal of debris was far higher than anyone could have anticipated. I note that in the claim the cost of it could have been included in the cover for buildings (as it contained asbestos from the building). But this would have meant it couldn't be paid at all as the maximum sum has been paid out for the building. So I think UKI acted fairly in apportioning the claim as it did. It may well be that in renewing cover Mr and Mr B have to consider whether to include a sum for debris removal. But we shouldn't confuse underinsurance with "*averaging*". Here the issue isn't that adding the cost of debris removal to the loss of produce meant the revenue was underinsured but whether it was fair to reduce the pay-out for it.

Overall I think UKI acted fairly and within the terms of the policy when dealing with the underinsurance in this claim.

my final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mr B to accept or reject my decision before 15 June 2017.

Ray Lawley
ombudsman