

complaint

Mr D's complaint is about the way U K Insurance Limited (UKI) set up his Landlords' Insurance policy.

background

UKI reduced the amount payable under Mr D's claims for damage by storm and escape of water because it said that he was dramatically underinsured for damage to buildings. Mr D argued that he had been misled when the policy was set up. Our adjudicator felt that UKI hadn't dealt with the complaint fairly and UKI referred the complaint to an ombudsman.

my findings

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

Mr D says that UKI suggested a rebuild value for the property to his son when he originally arranged cover for Mr D. UKI hasn't been able to provide a recording of that call but says that, as it was a non-advisory sale, its salesman wouldn't have provided Mr D's son with any information about rebuild values. The rebuild value stated in the policy was £250,000.

That policy was later cancelled and Mr D took out another policy with UKI. During the call to set up this policy Mr D made it clear that he didn't really know what the rebuild value was. After the salesman explained that UKI usually allowed 15% leeway before it reduced payments under a claim, Mr D decided to reduce the rebuild value to £200,000 to save premium.

When UKI's loss adjuster inspected the property to assess it for storm damage, he decided the rebuild value should have been £619,000. Later, another loss adjuster carried out a more detailed inspection for UKI and said the rebuild value should have been £1.3 million. On this basis, UKI reduced the amount payable under the claim for damage to buildings to 15% of the amount claimed.

Mr D obtained his own valuation from a quantity surveyor who said the rebuild value should have been £400,000. After the claims, Mr D renewed his policy. By this point UKI had upgraded its processes and incorporated an on-line rebuild value calculator. The salesman told Mr D that according to this calculator, his rebuild value should be £295,000. When Mr D told him UKI had said it should be £1.3 million, the salesman told Mr D that the rebuild value could never exceed the market value, which was thought to be a little under £500,000.

UKI has acknowledged that it isn't true that rebuild value can never exceed market value but argued that the statement made no difference to Mr D's position as it was made after his claims. That's true but this conversation does cast some doubt on UKI's assertion that its salesman wouldn't have suggested rebuild value when the first policy was set up by Mr D's son.

I think it's quite clear that Mr D didn't know what his rebuild value was and that this would have been apparent to UKI. It's also clear that it isn't easy to get an accurate rebuild value – UKI's loss adjusters have come up with £619,000 and 1.3 million, Mr D's quantity surveyor says £400,000 and the on-line calculator, £295,000.

UKI accepts that it won't reduce payments under a claim where the estimate is within 15% of rebuild value. This reflects the difficulty policy-holders often have in estimating rebuild value. I don't think it was fair for UKI to allow an underestimate of rebuild value to have such a dramatic effect on the value of Mr D's claim. This is because it was clear Mr D didn't know how to answer this question and, in this case, the correct answer seems to be unusually difficult to work out. And I'm also taking into account the fact that it appears that UKI's confidence about what its salesmen wouldn't say on a call may be misplaced. And that lends some support to Mr D's case that UKI influenced the rebuild value when the original policy was taken out. In the circumstances, I think UKI shouldn't have reduced the payment under the claim.

I understand that following UKI's position, Mr D took cover with a rebuild value of £1.3 million after the claims. There is a chance that this may be more than he needed.

my final decision

My final decision is to uphold the complaint. U K Insurance Limited should settle Mr D's claims, in accordance with the remaining policy terms and conditions, without any reduction for an underestimate of rebuild value.

UKI should also arrange for an independent surveyor to calculate the rebuild value for the property and should calculate the premiums Mr D would have paid at the correct rebuild value for the period in which the claim occurred and each period after. If Mr D has paid more than he should have in any of these periods, UKI should provide him with a refund together with interest at 8% simple per annum to the date of payment*. If Mr D has paid less premium than he should have in any period, UKI may deduct the shortfall from its settlement of his claims.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 5 August 2016.

Jonathan Coppin
ombudsman

* If HM Revenue & Customs requires UKI to take off tax from this interest, UKI must give Mr D a certificate showing how much tax it's taken off if he asks for one.