

complaint

Mr G's buildings and contents insurance policy was voided (treated as though it had never existed) by Liverpool Victoria Insurance Company Limited ("LVIC") because he failed to tell them about the true value of his contents. Mr G thinks LVIC should not have done this and that they should at least settle his claim up to the limit of cover.

background

In 2007 Mr G took out buildings and contents insurance with LVIC. He renewed the policy every year up to and including 2012. The policy had a limit of £125,000 for contents cover overall and a specific limit of £5,000 for valuables which include jewellery.

At least in recent years Mr G has tended to shop around before renewing his policy and then telephone LVIC to discuss the renewal premium. The recordings of these calls show that on more than one occasion Mr G would have been prepared to reduce his overall contents limit to £50,000.

Unfortunately during a particularly traumatic burglary a large number of items were stolen from Mr G's home, including 44 items of jewellery.

LVIC appointed a loss adjuster who valued the stolen jewellery at over £154,000.

LVIC said that if they had known the true cost of replacing the valuables, they wouldn't have offered insurance in the first place. So they voided the buildings and contents policy which means Mr G's claim was not covered.

Since Mr G was unhappy with that response, he complained to this service. He said that he did not know how much the jewellery was worth because it had been purchased abroad, inherited or given as a present. He thought that LVIC should settle the claim for the stolen jewellery by paying an amount equal to the limit of cover for valuables. He also thought that LVIC had been wrong to void the whole policy which had left him without buildings cover for a period.

my provisional findings

I issued a provisional decision which set out the reasons why I was minded to uphold the complaint. The relevant excerpt from my provisional decision is repeated below.

With cases we see involving consumers insuring their possessions for less than they are worth ("under-insurance") the crucial point for us is whether an insurer is asking consumers clear and straightforward questions.

what were the questions?

There is little information from the time when Mr G originally took out the policy but it was renewed several times. There are records of telephone calls made when Mr G was renewing the policy.

In one call Mr G tried to get a lower limit of cover to reduce the premium but this was not possible because LVIC had an automatic limit.

Another time in connection with a quote for a different type of policy Mr G was asked:

“Do you want to cover any items that are worth more than £1,500 each? Any jewellery, fur, gold, silver or works of art?”

Mr G answered: “No - £1,500 is enough.”

Then LVIC said:

“Now the main difference with the new policy is that you can pick the sum insured....We’ve calculated the sum insured for all your contents within the home to be £50,000. Now do you think that would be adequate?”

Mr G answered: “Yes, that would be adequate.”

In the event he decided to renew his existing policy because the premium was cheaper.

On the last renewal Mr G rang again and asked for a quote on a different policy. He was asked:

“Did you want to cover any items that were worth more than £1,500 individually?”

He replied: “No.”

Then LVIC said:

“We’ve calculated the total amount of contents cover to be £50,000. Is that enough to cover everything in a worst case scenario?”

Mr G replied: “Yes” but again ended up renewing his existing policy which was slightly cheaper for £125,000 of contents cover.

were the questions sufficiently clear?

On the face of it Mr G was asked whether he wanted to insure any items worth more than £1,500 and also whether a total contents value of £50,000 would be adequate which may have given him the impression that he had the option to choose a lower level of cover. It was a little clearer when he was asked whether £50,000 would be enough to cover everything but he was still not told the importance of ensuring that he had cover for the total value of all his contents. He might reasonably have thought he was being asked to consider whether he would be satisfied with insurance cover of £50,000 as opposed to LVIC wanting to know the total value of items at risk in his home. I am not persuaded therefore that LVIC asked a sufficiently clear question about the level of cover required.

warning

Additionally we require that the consumer is given a warning about the consequences of under-insurance. Here the sales person did not make it clear that if his contents were not insured for the full amount of their value, then there would be a risk of the whole policy being avoided.

In the policy documents there were two warnings:

“You must notify us of any alteration that increases the value of your contents beyond the limit of cover.” and

“Please ensure that the limit of cover for your personal possessions is adequate.”

The consequences of failing to comply with these warnings were not explained. I do not think therefore that it was made sufficiently clear to Mr G that the policy must cover the entire cost of replacing the contents.

Although it is evident from these calls that Mr G was prepared to have a lower limit of contents cover in order to reduce his premium, I am not satisfied that LVIC has demonstrated that it asked a clear question of Mr G or warned him of the consequences of underinsuring. Under the circumstances I do not think it is reasonable for LVIC to void the policy. It should reinstate the policy and reconsider the claim.

I concluded that LVIC should reinstate the policy and consider Mr G's claim, remove any record of the policy avoidance from any databases, pay interest at 8% a year on the settlement amount from the date of the loss to the date of settlement, pay £150 in compensation for the trouble and upset and compensate Mr G for any increase in policy premiums.

developments

Mr G accepted my decision.

LVIC commented that we should differentiate between the terms and conditions for Mr G's actual policy and the quotes he had for different policies. However, I thought it necessary to consider the recordings of telephone calls on renewal of the policy when he was trying to reduce his premium since they influenced LVIC's decision to void the policy.

LVIC have also referred me to the warnings in the policy documents about a failure to provide correct information and the fact that the limits of contents cover are clearly stated. I agree with those comments but am still of the view that Mr G may not have realised that his under-insurance amounted to a failure to provide correct information. I think Mr G was probably unaware that he had a duty to ensure that the value of his contents was not more than the limits of contents cover.

LVIC were uncertain how their questions were unclear. I think LVIC wanted to know the full value of the contents while Mr G thought he was being asked what cover he wanted or considered adequate. They were also not sure why questions relating to quotations for a different policy which was not in fact taken out were relevant to this complaint. I considered them to be relevant because LVIC decided to void the policy based on what Mr G had said in answer to one of those questions.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

In my provisional decision I said I was minded to require LVIC to pay interest at 8% a year on the settlement amount from the date of the loss to the date of settlement. I do not wish to imply by doing so that I necessarily expect LVIC to meet the claim and so to avoid any uncertainty in that respect I

have decided in this final decision not to require LVIC to pay interest if, after considering the claim, it decides the claim should be settled in line with its terms and conditions and taking into account the policy limits. It may, however, wish to do so and, if it doesn't, Mr G would be able to bring a complaint about that if he wishes.

Having considered all the arguments and evidence presented from the outset, I conclude that LVIC's decision to void the policy was unfair and unreasonable.

my final decision

My final decision is that I uphold this complaint. I require Liverpool Victoria Insurance Company Limited to:

- reinstate the policy and consider Mr G's claim in line with its terms and conditions and taking into account the policy limits;
- remove any record of the policy avoidance from both internal and external databases;
- pay £150 in compensation for the additional trouble and upset caused by the decision to void Mr G's policy incorrectly; and
- compensate Mr G for any increase in policy premiums resulting from the incorrect policy avoidance upon receipt of supporting evidence.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr G to accept or reject my decision before 13 April 2015.

Elizabeth Grant
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