

The complaint

Mr and Mrs L are unhappy with the options Fairmead Insurance Limited (Fairmead) offered to settle their claim for a damaged ring.

Mr and Mrs L jointly held buildings and contents insurance underwritten by Fairmead. For ease of reading, I'll refer to Mrs L throughout my decision.

What happened

The background to this complaint is well-known to both parties. So, I've set out a summary of what I think are the key events.

Mrs L claimed under the policy after noticing the diamond in her ring was chipped. Fairmead accepted the claim.

The ring was insured for £10,000 but had been valued at around £20,000 just over two years earlier. Mrs L said she'd sent a copy of the valuation to Fairmead, but it had no record of receiving it. And Mrs L hadn't checked that her policy had been updated.

So, Fairmead gave Mrs L four settlement options:

1. Fairmead would keep the ring and pay Mrs L the full £10,000 insured without deducting her £200 policy excess.
2. Fairmead would keep the diamond, return the ring shank and settle the claim at £10,000.
3. Mrs L would pay Fairmead's supplier £3000 (rounded) to replace the stone, which is the difference between the cost to replace and the policy limit.
4. Mrs L could withdraw her claim and Fairmead would return the ring to her in its damaged condition.

However, Mrs L didn't think the options were fair. During one call with Fairmead, it had offered to cash settle at the policy limit and return her ring. She complained to Fairmead because that offer wasn't included as an option.

Fairmead upheld Mrs L's complaint because it had given her incorrect information by saying it would return the ring as well as pay a cash settlement. Fairmead said it wouldn't provide that option because, if it returned the ring as well as paying a cash settlement, Mrs L would be better off and that was not the intention of the policy. In recognition of its mistake, Fairmead offered £100 compensation but confirmed that the four options remained the same.

Mrs L was unhappy with Fairmead's response, so she brought her complaint to us.

Our investigator said Fairmead's offers were in line with the policy. Because Mrs L had underinsured her ring, he didn't think it would be fair to ask Fairmead to cash settle and return the ring. However, our investigator thought Fairmead had raised Mrs L's expectations, resulting in distress and inconvenience when Fairmead corrected its mistake weeks later. In

recognition of that avoidable distress and inconvenience, our investigator thought Fairmead should increase its offer to £250 compensation.

Mrs L didn't agree. She said Fairmead's offer to cash settle at an amount which was less than the value of her ring, even in its damaged state, was benefitting Fairmead. She also challenged its comment about keeping the ring for salvage. In summary, Mrs L's request was, again, to cash settle at the policy limit and return her ring.

The complaint was passed to me to decide.

What I've decided – and why

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

Having done so I've decided to uphold Mrs L's complaint about the way Fairmead handled her claim, but I won't be asking it to cash settle and return her ring. I'll explain why.

The relevant regulator's rules say that insurers must handle claims promptly and fairly. And that they mustn't turn down claims unreasonably. So, my role is to look at the evidence and decide whether Fairmead handled Mrs L's claim promptly, and fairly in the circumstances.

The policy sets out the detail of the contract between Mrs L and Fairmead. The policy booklet states, "*We will pay up to the amount shown on your policy schedule*". Turning to the schedule, it confirms the Valuable Items Cover sum insured was £18,320. Under the Summary of Limits, the valuable items covered were specified as:

1. Diamond Engagement Ring £10,000
2. [brand and model] watch £8,320

As the ring was specified in the schedule with a value of £10,000, and the policy wording confirms that Fairmead would pay up to the specified value, I'm satisfied the cover available was clear. Mrs L accepts that, due to her mistake, her ring was underinsured and Fairmead's liability isn't disputed.

The policy allows Fairmead to settle the claim by repair, replacement or cash. I'm satisfied the four options are in line with the terms and conditions. So, I've thought about whether the offers were fair in the circumstances.

On the face of it, Fairmead's offers seem fair because each one provides Mrs L with the full insured value. But I understand Mrs L isn't happy with the first offer in particular, so I'll address that in more detail.

Mrs L provided Fairmead with evidence that her ring was valued at £10,250 in its damaged state. Fairmead's offer is to provide the full £10,000 policy limit and keep the ring. Put simply, Mrs L would be giving up a ring worth more in its current state than Fairmead is offering to settle. Looking at it that way, I can see why Mrs L doesn't think it's a fair offer. But, as it's not Fairmead's only offer, I can't say it was unfair in the circumstances.

The second option was the same as the first except Fairmead would return the ring shank. The shank was valued at £230 as salvage, which brings the total offer broadly in line with Mrs L's valuation. I think that's fair.

Fairmead provided evidence to show that it would cost £13,000 to replace the diamond with an equivalent one. So it provided Mrs L with the option to pay the difference of £3,000

between her policy limit and the replacement cost. While Mrs L may not wish to pay towards the replacement, I'm satisfied that Fairmead's offer was fair because it would provide her with a ring equivalent to hers in structure and, likely, greater monetary value than before the damage. I realise the sentimental value can't be replaced.

Fairmead's final option to return the ring and close the claim gives Mrs L the option to arrange her own repair, or keep the ring in its current state. I don't think it was unfair of Fairmead to make that option available to her, especially as Mrs L had complained about it holding onto her ring.

I'll turn now to the settlement Mrs L would prefer. Fairmead mistakenly said she could have the ring back as well as taking the cash settlement. That's what she'd like Fairmead to do to settle her claim. Looking just at the numbers, that would mean Mrs L had a damaged ring worth £10,250 plus a cash sum of £10,000. The ring in its undamaged state was valued at a little under £20,000. With this option, Mrs L would be profiting from her insurance policy, so I can't say it's a fair settlement. I see no reason to ask Fairmead to pay a cash settlement for a ring which it could salvage, yet still return the ring to Mrs L.

Mrs L said the policy doesn't state that Fairmead would keep the ring. While that may be true, nor does the policy state, or imply, that any item will be returned in the event of a full cash settlement. Fairmead could've made it clearer in the policy, but I don't think that lack of clarity warrants providing a settlement worth over £20,000 when the sum insured was £10,000.

In light of the time taken to address Mrs L's claim because of its mistake in saying it would return the ring, Fairmead offered £100 compensation. I can understand Mrs L's expectations had been raised inappropriately by Fairmead's mistake, and that remained the case for several weeks. I wouldn't expect Fairmead to honour its offer just because Mrs L's expectations had been raised. However, I consider it reasonable to pay compensation in recognition of the upset caused. I'm satisfied that an increase to £250 represents a reasonable level of compensation for the otherwise avoidable distress and inconvenience caused.

Mrs L explained why the ring held such sentimental value, so I can see why anything other than having the ring back in perfect condition will feel less than satisfactory. But I must be fair to both sides, and I can't fairly ask Fairmead to offer a settlement option which gives Mrs L more than the insured value. Mrs L said she can't be sure that Fairmead's third offer – to replace the diamond with an equivalent one – would meet her expectations. Fairmead must complete the replacement in line with the policy, so there's no reason to think that the diamond would be inferior. It's not for me to make a requirement based on Mrs L's uncertainty about what Fairmead might consider equivalent. If Mrs L chooses that option, she'd need to discuss the quality of stone directly with Fairmead.

Overall, I'm satisfied that Fairmead offered settlement options to Mrs L in line with the policy and fairly in the circumstances given the ring was underinsured. But I don't find that Fairmead handled the claim as promptly as Mrs L could reasonably expect, and its mistake caused unnecessary distress and inconvenience. In recognition, I consider it fair reasonable to pay £250 compensation.

My final decision

For the reasons I've given, my final decision is that I uphold Mr and Mrs L's complaint and Fairmead Insurance Limited must:

- pay them £250 compensation in recognition of the distress and inconvenience, and

the additional time taken, caused by its mistake.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L and Mrs L to accept or reject my decision before 4 April 2024.

Debra Vaughan
Ombudsman