

The complaint

Mr S complains about the way American International Group UK Limited (AIG) handled his claim when his watch was stolen.

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.

Mr S had insurance underwritten by AIG which provided cover for mobile phones and gadgets. He claimed under the policy after his smart watch was stolen.

AIG accepted the claim, but Mr S disagreed with its interpretation of the policy. AIG said the watch strap was an accessory and, therefore, not covered under the policy. Mr S provided evidence from the manufacturer to show the strap was a necessary part of the watch.

AIG issued its final response to Mr S agreeing that the strap was covered under the policy. However, when discussing the matter with AIG's claim handlers, an agreement couldn't be reached regarding the claim settlement. So Mr S brought his complaint to us.

Our investigator didn't think AIG had treated Mr S fairly. He thought AIG should pay £250 compensation, settle the claim and pay 8% interest from the date the claim should've been paid. AIG didn't agree.

I issued a provisional decision in February 2024 explaining that I was intending to uphold Mr S's complaint. Here's what I said:

provisional findings

There's no dispute about the theft, and AIG accepted that the watch was covered under the policy. The complaint is about whether the watch strap was covered, and the way AIG handled the claim.

The relevant regulator's rules say that insurers must handle claims promptly and fairly. The policy sets out the detail of the contract between Mr S and AIG. So I've considered these things, amongst others, in reaching my decision.

Watch strap

AIG refused cover for the watch strap because it fell within the definition of an accessory. The policy states:

Device Accessories.

Any Loss, Theft, Damage, or Breakdown of any Device accessories will not be covered. This Policy only covers the cost of repair or replacement of the Device itself. Please note that watch straps are considered to be an accessory and should be removed and not returned to [the insurer].

While I agree that the watch strap falls within this definition, the policy wording suggests it is only relevant when the watch is sent to AIG for repair or replacement. In those circumstances, the policyholder should keep hold of the strap for use when the watch is replaced or returned after repair. In Mr S's case, his watch was stolen, so he didn't have the strap. I don't think it's fair or reasonable to class the watch strap as an accessory when handling a theft claim. That's because Mr S couldn't have removed the strap for later use, and because the watch wasn't available as a standalone item.

Therefore, I think AIG unfairly declined cover for the strap in the circumstances.

Strap replacement

In its final response, AIG upheld Mr S's complaint and agreed to replace the watch strap. But its notes show it continued to dispute any liability for the strap. It's not clear what position AIG had taken regarding the watch strap, but Mr S said he wanted a replacement on a like for like basis.

The policy states:

Theft claims.

If Your Gadget is Stolen, [the insurer] will replace it with a Gadget of the same make and model of the claimed Gadget wherever possible. If the same make and model of Your claimed Gadget is not available, we will contact you to discuss alternative options, which may include a replacement Device with equivalent specifications.

Looking at the receipt Mr S provided as proof of ownership, he'd bought a smart watch with a leather strap. Therefore, he could reasonably expect AIG to replace it with a similar or same specification smart watch with leather strap.

Settlement and excess

In AIG's documents, it said the policy didn't provide for a cash settlement. Therefore, it didn't think any interest on the settlement was due. Further to this, AIG said the claim expired because Mr S didn't pay his excess.

Mr S said he would've paid his excess once AIG gave him the settlement details.

Turning again to the policy, it says:

You will need to pay an Excess for each approved claim, including where a Cash Settlement is offered, and the Excess must be paid to [the insurer] before Your claim will be settled.

A Cash Settlement will be made payable if we cannot repair or replace Your Device and will be transferred to the bank account from which You paid Your Excess.

This tells me that the policy does provide for a cash settlement, and that the excess should be paid before the claim is settled. But I think it's fair to say it's AIG's decision whether to offer a cash settlement, with the expected settlement being a replacement.

In respect of the excess, it is generally expected that the policyholder pays the excess before the claim is settled. I don't think that means AIG should've refused to confirm the settlement before Mr S paid the excess, but I see that it did tell Mr S that it would replace his

watch. I think both AIG and Mr S had some responsibility for the claim not progressing as it should, though AIG had the greater weight of responsibility to settle the claim promptly and fairly.

Compensation

Our investigator recommended £250 compensation because Mr S had to go to so much more effort than he should've done. AIG doesn't think it delayed handling the claim.

I see AIG accepted Mr S's claim within two days. Mr S got confirmation from the manufacturer that the strap was an integral part of the watch, and AIG agreed to replace it. The claim then stalled while the two parties disagreed about the type of strap. At the time AIG issued its final response to Mr S's complaint, the claim had been ongoing for two months. But AIG had agreed to replace the watch and strap within a week of the claim.

Based on the timeline of events, I think AIG caused a few days' delay because of its mistake about whether the strap was covered. But I can't reasonably say that AIG was solely responsible for the inconvenience Mr S experienced after it offered to settle his claim with a replacement watch with standard strap. That's because, while I think AIG should replace the leather strap, I think Mr S could've done more to minimise the inconvenience he experienced. For example, Mr S could've accepted the replacement AIG offered and bought a leather strap, while still pursuing his complaint about the type of strap AIG provided.

I'm minded to require AIG to pay Mr S £100 compensation for the inconvenience caused by what I think is its unfair interpretation of the policy terms and conditions, leading to the disagreement about the type of watch strap covered. But I can't fairly say AIG caused any significant or avoidable delays that would warrant a greater sum.

To put matters right, I think AIG should pay £100 compensation to Mr S, and confirm its settlement offer for the watch and leather strap, whether that's a replacement or cash settlement. However, I can't ask AIG to settle the claim for a replacement until it receives Mr S's excess payment, so he must be mindful of that.

I said I was intending to uphold Mr S's complaint and I was minded to require American International Group UK Limited to:

- Confirm its settlement offer for Mr S's smart watch claim, including the leather strap, on a same or similar basis in line with the policy terms and conditions.
- On receipt of the policy excess from Mr S, settle the claim in line with the policy terms and conditions.
- Pay £100 compensation for the failure to make a fair offer in line with the policy.

I asked both parties to send me any further comments and information they might want me to consider before I reached a final decision.

responses

Neither AIG nor Mr S agreed with my provisional decision.

Mr S said I'd incorrectly addressed the matter of whether the strap was an accessory, and he didn't agree that AIG had responded to his claim within a week.

AIG disagreed with my interpretation of the terms and conditions - it repeated its position that the strap was an accessory and its offer to replace with a silicon strap was a gesture of goodwill. AIG also disagreed with the proposed compensation.

I'll address the key points in my findings, below.

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.

I listened to Mr S's comments in response to my provisional decision. He said I'd agreed the watch strap was an accessory as defined in the policy, but everyone had already agreed it wasn't. AIG also disagreed with my interpretation of the policy wording, explaining that the strap was an accessory regardless of whether it was damaged or stolen.

I agreed that the policy definition of an accessory included watch straps. Had Mr S made a claim for a damaged watch strap, it's unlikely the policy would've provided cover. However, in the circumstances of this claim, I don't think it would be fair to replace just the watch without a strap. As I said in my provisional decision, the watch isn't sold on its own, and the manufacturer confirmed that a strap is a necessary part to achieve full functionality.

If Mr S had bought the watch with a silicon strap and replaced it with a leather one, I wouldn't have expected AIG to replace or pay for the leather strap. That's because Mr S would've bought the leather strap as an accessory – an optional extra. But Mr S's receipt shows that he bought the watch and leather strap as a single item. Therefore, in the circumstances, I think it's fair and reasonable for AIG to replace or pay for the replacement of the watch with leather strap as a single item.

Mr S said AIG didn't get back to him within a week and it took two months. The timeline of events shows that AIG accepted the claim but declined cover for the strap within two days. Mr S called AIG within a week to discuss the matter. Therefore, I can't agree that AIG delayed his claim or that it was two months before it responded.

AIG didn't think it was fair to pay compensation for the time taken to discuss the matter of the watch strap. Mr S provided sufficient evidence to show that he'd bought the watch and strap as one item, and that it was a necessary part of the watch. He also explained that he couldn't buy the watch as a standalone item, so he'd need a strap to have a functioning replacement. I think his argument is reasonable so, as I said, I've decided that the strap should've been included in the claim. This, along with AIG's conflicting responses regarding its settlement offer, persuades me that compensation is warranted. That said, I will comment again that I think Mr S could've done more to minimise the impact, which is why I haven't awarded more than £100 compensation.

I understand AIG can't confirm its settlement now because of the quickly changing nature of technology. If Mr S wishes to progress his claim, he'll need to contact AIG directly and pay his excess before AIG can confirm what is available to replace his stolen watch. Nevertheless, I think AIG can still explain to Mr S the nature of its offer. That is, whether it will cash settle for watch and strap, or replace on a like for like basis, in line with the policy.

Overall, while I realise neither party is happy with the outcome, I've decided to uphold Mr S's complaint for the reasons given, which I think are fair and reasonable in the circumstances.

My final decision

For the reasons I've explained above, and in my provisional decision, I uphold Mr S's complaint and American International Group UK Limited must:

- Confirm its settlement offer for Mr S's smart watch claim, including the leather strap, on a same or similar basis in line with the policy terms and conditions.
- On receipt of the policy excess from Mr S, settle the claim in line with the policy terms and conditions.
- Pay £100 compensation for the failure to make a fair offer in line with the policy.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 22 March 2024.

Debra Vaughan
Ombudsman