

The complaint

Mr and Mrs H have complained about the amount Royal & Sun Alliance Insurance Limited (“RSA”) has offered to pay for a claim they made on their home insurance policy.

Mr H has primarily dealt with things so, for simplicity, I’ll refer to him only.

What happened

As the circumstances of this complaint aren’t in dispute, I’ll summarise what’s happened.

- Mr H took out a home insurance policy through a broker I’ll call B in 2005. It was underwritten by RSA and administered on RSA’s behalf by a company I’ll call P. The initial sum insured for the building was £300,000.
- It renewed annually each year, up to and including February 2022, with P writing to Mr H. At that time, the sum insured remained at £300,000.
- In November 2022, Mr H’s home was severely damaged by fire and he got in touch with RSA to make a claim. RSA accepted the claim in principle, but it said Mr H hadn’t insured his home for a high enough amount. It estimated the cost to rebuild his home was around £700,000 – significantly more than his sum insured.
- I understand RSA initially agreed to increase the sum insured to £500,000 but later decided not to. It paid Mr H the £300,000 sum insured and £45,000 for alternative accommodation (AA) to settle the claim.
- Mr H said this left him with a shortfall of over £450,000 to restore his home and have sufficient AA. He complained about this. He said:
 - The policy renewed automatically and premiums increased each year. He didn’t know cover hadn’t been increasing over time.
 - The policy documents said there was nothing Mr H needed to do. There had been no changes in his circumstances, so he had no need to make any changes to the policy. And he wasn’t asked to check the rebuild cost.
 - RSA should have increased his sum insured each year to reflect the rebuild cost of his home.
 - RSA cancelled his policy in January 2023.
- P responded to the complaint on behalf of RSA. It said:
 - The policy did include index linking annually. However, it would only do so up to set limits - £300,000 or £500,000.
 - The policy contained a term which told Mr H to ensure the sum insured remained accurate to rebuild his home – up to a maximum of £500,000, beyond which the policy would need to be cancelled.
 - At each renewal, P told Mr H to check the sum insured met his needs.

- The sum insured was set to £300,000 in 2005 and remained at that amount until 2022, suggesting Mr H hadn't considered the impact of inflation.
- As the sum insured for Mr H's policy would need to be substantially above the maximum £500,000 available, P cancelled the policy as of January 2023.
- Our investigator thought RSA should act as if the policy had been index linked over the years, up to the maximum cover available – which meant increasing the sum insured to £500,000. And then settle the claim proportionately in line with the difference in premium from a £300,000 policy to a £500,000 one. She also asked RSA to pay £450 compensation.
- RSA agreed with our investigator's recommendations. Mr H didn't. He made the following points:
 - He questioned whether £500,000 was the maximum cover available as he found evidence online to show RSA was prepared to offer a sum insured of £1,000,000 with some policies.
 - And even if £500,000 were the maximum, RSA should have told him that he'd reached that maximum through index linking. Then he could have avoided finding himself in this position by getting more cover with another policy.
 - As a result, he suggested RSA should act as if the sum insured were at least £800,000 to cover the estimated rebuild and AA costs.
 - He also said RSA had cancelled the policy in January 2023, yet it was still taking a premium for it. He asked for this problem to be resolved, including removing any reference to policy cancellation from relevant files.
- Our investigator wasn't persuaded to change her mind. She said the online evidence about the sum insured was for policies sold directly by RSA, whereas Mr H's policy was sold through P. And she also said the cancellation and ongoing premium payment problem should be dealt with as a separate complaint.

My provisional decision

I recently issued a provisional decision in which I said:

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

- The crux of this complaint is about the sum insured. It's accepted that it was set to £300,000 when the policy was taken out in 2005 – and remained that way at the 2022 renewal, prior to the claim. It's also accepted that this figure is insufficient for the rebuild cost of the house.
- RSA has now agreed to settle the claim proportionately, based on a buildings sum insured of £500,000 and the corresponding premium. That's unlikely to cover the full cost of the claim. So the key question for me is whether this is a reasonable position for RSA to take – or whether it should do more.
- I've seen the renewal documents from 2015 onwards. At each of those renewals, P has been clear that it doesn't offer advice. I understand P and Mr H had no contact other than these renewal documents and I haven't seen anything to suggest P acted in a way such that it gave Mr H advice.

- That means when renewing the policy on RSA's behalf, P should have provided Mr H with information that was clear, fair and not misleading. That information should have enabled him to make an informed decision about whether the policy was right for him, including what information he needed to provide to ensure it met his needs. For example, what the sum insured should represent to be fully covered.
- P says the policy makes clear that the sum insured should cover the rebuild cost of the home. To provide Mr H with information that was clear, fair and not misleading, I would have expected P to set out that requirement in the renewal documents.
- Mr H seems to have expected P to check the sum insured was sufficient for him each year and update it as necessary. But P wasn't providing advice, and this isn't a service it offers. Nor can I see that it ever said it would do this for Mr H. So I wouldn't have expected P to estimate the rebuild cost for Mr H or advise him about what value the rebuild cost should be. It only needed to provide him with information that was clear, fair and not misleading.
- I'm not satisfied P did that in relation to the sum insured. I'll explain why.
- The relevant part of recent renewal documents said: "*Buildings cover: up to £300,000*". P didn't provide any further explanation about this figure. So it didn't say that it should represent the rebuild cost of the home. Nor did it provide any information about what to take into account when estimating the rebuild cost, or any guidance about how to do that, such as a rebuild calculator.
- Whilst P says the policy explains what the sum insured should represent, I wouldn't expect Mr H to cross reference the renewal documents with the policy to infer what information he needs to provide – P should make that clear for him.
- And I'm not persuaded the policy is as clear as P says it is. The policy says:

"You should make sure your sum insured remains adequate to rebuild your home if you extend or make improvements to your home".
- Whilst this term links the sum insured to the rebuild cost, it suggests Mr H would only need to think about increasing the sum insured if he materially added to his home. So it's not clear that Mr H would need to think about increasing the sum insured each year even if nothing changed.
- Elsewhere, the policy says:

"You must tell [P] as soon as you know about any of the following changes: ... any increase in the rebuilding cost of your buildings".
- Whilst this wording is clearer, it's under a section called 'Changes in your circumstances'. Broadly speaking, Mr H's circumstances hadn't changed. So I'm not persuaded this term is clearly positioned in a way such that Mr H should reasonably have considered it.
- That means I'm not satisfied P was clear in the renewal documents or the policy about what Mr H needed to do in relation to the sum insured. So this didn't help Mr H set a sum insured that would likely cover the rebuild cost. He also says P should have index linked the sum insured over time – but didn't.

- Whilst P didn't need to estimate the rebuild cost for Mr H or advise him about what value the rebuild cost should be, it accepts the policy says it will index link the sum insured. But P says the policy is offered at two sums insured only – £300,000 and £500,000 – and it would index link up to one of those sums insured and then stop. So, because Mr H already had a £300,000 sum insured, it wouldn't index link it at all.
- The policy says:

“The buildings sum insured will be adjusted in line with a recognised index. Please note that if we selected your sum insured for you, the sum insured will not be adjusted”.
- Separately, it says:

“If the sum insured exceeds £300,000, you will need to opt for Buildings Extra. If the sum insured exceeds £500,000 (our maximum cover) the buildings policy would need to be cancelled”.
- So the policy says P may index link the sum insured – dependent upon who selected it. I'm not satisfied this is a clear term and I don't understand why index linking is dependent on who selected the sum insured. And as the two quoted sections above are separate in the policy, it's not as clear as it could be that the sum insured will stay at £300,000, despite an agreement to index link. As P has agreed to retrospectively index link the sum insured up to £500,000, I think it accepts it wasn't clear enough and has taken steps to put this right.
- Mr H has questioned whether the maximum sum insured is £500,000. P has been clear throughout that this is the case – and that's what the policy says. So I'm satisfied it was the maximum sum insured offered by RSA through P.
- Mr H has provided evidence to show RSA may offer greater cover with other policies. However, the information Mr H has provided relates to a policy RSA offered directly – not through P. So it's not something that would have been available to Mr H through this policy RSA offers via P.
- Overall, I'm not satisfied P provided Mr H with all the information it should have done about the sum insured. Nor was it clear about index linking. So I think P contributed to the shortfall problem Mr H now faces and should therefore contribute to putting that problem right. However, I don't think it would be fair to hold P fully responsible for the problem – or putting it right. I'll explain why.
- Mr H has said he didn't look at the renewal documents each year. Whilst the policy was set to automatically renew, so it continued regardless of his level of engagement, P recommended Mr H check the information and let it know if any changes were needed. It specifically referenced the level of cover and drew to Mr H's attention the possibility that the building sum insured may need to be increased. And it said a claim payment could be reduced if the information wasn't kept up to date.
- Whilst P didn't do enough to link the sum insured to the rebuild cost, P did enough to make Mr H aware he had a sum insured of £300,000 – and that he should check whether it may need to be increased to be fully insured in the event of a claim. Mr H says because his premiums increased each year, and he thought the policy would index link, he assumed the sum insured was increasing each year. But that wasn't reflected in the renewal documents. They were clear he still only had cover up to

£300,000 in 2022. Even if Mr H didn't know the sum insured should reflect the rebuild cost, I think it's reasonable for him to have known the sum insured ought to increase over time to take account of inflation.

- This means P did highlight some potential problems with the sum insured to Mr H. But, because he didn't engage with the renewal documents, he didn't take any action. That's not something I can hold against RSA or P. So I don't think it would be fair to make RSA fully responsible for the shortfall Mr H faces.
- RSA's agreement to settle the claim up to £500,000 will mean a significant additional payment to Mr H – but will nonetheless likely leave him with a shortfall. He says P is responsible for this as a result of not index linking his policy annually and so RSA should pay his loss in full, including additional AA.
- I understand Mr H's argument is as follows. If P had index linked annually, the rebuild cost estimate would have increased above £300,000 and the sum insured would have increased to £500,000. Continued index linking of the rebuild cost estimate would eventually have reached or exceeded £500,000 – at which point, P should have alerted Mr H to that. He could then have taken out a different policy that would provide cover over £500,000 – and he wouldn't have a shortfall.
- Even if I agreed P should have done as Mr H says, I'm not persuaded he would likely have acted differently because he's been clear he didn't read his renewal documents on the assumption P would take care of his sum insured. So if P had highlighted the potential problem in the renewal documents, it's unlikely Mr H would have noticed it as he didn't engage with the documents and/or act on other potential problems it noted. And whilst P could have cancelled the policy if it thought the likely rebuild cost had exceeded the maximum sum insured, I'm not sure it would have been reasonable for P to go that far and risk leaving Mr H potentially uninsured.
- If P had index linked annually, Mr H would have had a buildings sum insured of £500,000 at the time of the claim. So I'm satisfied this is the position RSA should put him in. Even if P had warned Mr H that sum insured may be insufficient and/or been clearer about what the sum insured should represent, it's unlikely he would have taken any action. So, in the particular circumstances of this complaint, I'm not satisfied it would be fair to require RSA to go beyond a £500,000 sum insured.
- RSA previously paid £300,000 to settle the claim. To put things right, RSA should pay up to an additional £200,000 to settle the claim up to the £500,000 sum insured.
- This is a slight change to the position our investigator suggested and RSA agreed to. As P has accepted it should have index linked and that would have given Mr H a £500,000 sum insured, I'm not satisfied a proportionate settlement would treat him fairly. And given the difference in premium for the two sums insured is small – around £10 for 2022, or less than 2% - I don't think that will make a significant difference.
- The AA sum insured is set to be 15% of the buildings sum insured. So as a result of the buildings sum insured increasing to £500,000, the AA sum insured is now £75,000. RSA has already paid £45,000, so that means RSA should pay up to an additional £30,000 to settle the AA claim up to the higher sum insured.
- In both cases, RSA should consider what payments are appropriate, based on the amounts Mr H has claimed and the remaining terms and conditions of the policy.

- In December 2022, P told Mr H it would cancel his policy in January 2023 because the rebuild cost for his home should be significantly more than the £500,000 maximum sum insured available for this policy. It reiterated its intention to cancel the policy in its complaint response. So I think the cancellation point forms part of this overall complaint and should be considered within this decision.
- As a result, Mr H thought he had no home insurance from January 2023. However, he says P has continued to collect premiums from him, so he's unsure whether the policy was cancelled or not.
- RSA has recently said the policy wasn't cancelled. Given Mr H has shown he's continued to pay premiums, that seems likely. But it's not clear why the position P set out in December 2022 has changed – or that Mr H was made aware of it.
- Nonetheless, as the policy wasn't cancelled, this point has likely been resolved. In response to this provisional decision, RSA should provide the 2023 renewal documents and confirm no cancellation markers have been added internally or externally. If that's so, I'm likely to find RSA need take no further action on this point. It will be up to Mr H and RSA/P to decide whether to continue the policy – and on what terms – in the future.
- RSA agreed to pay the £450 compensation our investigator recommended. Mr H didn't comment on it, so I don't think this amount is in dispute. Nonetheless, I'm satisfied it's reasonable in the circumstances.
- RSA promptly accepted the claim and made a substantial payment in line with the sums insured. That enabled Mr H to fund AA and take steps to begin repairing the damage. If RSA had paid more sooner, Mr H would still have faced a shortfall, but a much smaller one. I think that would have reduced, but not eliminated, his concern about how to pay for the full cost of repairs and AA.

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.

Mr H said he had no further information or additional points to make. But he asked how and when RSA would pay the sums awarded.

RSA said it accepted my provisional decision and had no further information to add.

Neither party has challenged or commented on my provisional decision, so I see no need to comment further in detail and/or change my findings.

As RSA didn't confirm that it hadn't added any cancellation markers internally or externally, the possibility remains that some may have been added. So I'll require it to remove any that have been added to ensure this point is fully dealt with. Other than that, my award will remain the same as I outlined in my provisional decision, for the same reasons.

If Mr H accepts my final decision, RSA will be required to fulfil the award I make. That includes paying compensation and settling the claim as I outlined. But, to be clear, I haven't awarded specific amounts for the claim. It will be for RSA to consider how much it should pay, based on the amounts Mr H has claimed and the remaining terms and conditions of the policy. That may mean simply paying up to the higher sums insured, but that will depend on

the details of the claim – and that hasn't been the subject of this complaint, so I haven't considered this point.

RSA should pay the compensation and get in touch with Mr H about settling the claim within 28 days of the date on which Mr H accepts my final decision. Beyond that, it should settle the claim promptly.

My final decision

I uphold this complaint.

I require Royal & Sun Alliance Insurance Limited to:

- Settle the buildings and AA claims as set out above.
- Pay £450 compensation.
- Remove any cancellation markers that have been added internally or externally.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H and Mr H to accept or reject my decision before 8 April 2024.

James Neville
Ombudsman