

The complaint

Mrs K complains about the settlement of her property insurance claim with Fairmead Insurance Limited.

Fairmead are the underwriters (insurers) of this policy. Some of this complaint concerns the actions of their appointed agents. As Fairmead accept they are accountable for the actions of their agents, in my decision, any reference to Fairmead should be interpreted as also covering the actions of their appointed agents.

What happened

The background to this complaint is well known to Mrs K and Fairmead. In my decision, I'll focus mainly on giving the reasons for reaching the outcome that I have.

Mrs K had a residential property owners insurance policy with Fairmead with a buildings sum insured of £210,000. Following a fire at the property, Mrs K registered a claim against her insurance policy. Two further claims were also raised following theft and another fire.

Fairmead accepted the claims and said the limit of their liability was £262,500. Mrs K disputed this and raised a complaint as she said this was insufficient to cover rebuild costs. She said that monthly indexing had not been applied.

Fairmead responded, but didn't uphold the complaint. They said that a day one uplift of 25% had been applied as per the policy terms, resulting in a sum insured of £262,500. As Mrs K remained unhappy with the response, she referred her complaint to our Service for an independent review.

Our Investigator considered the complaint and most recently recommended that the complaint not be upheld. Mrs K didn't accept the recommendations, so the complaint has been referred to me for a final decision.

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.

Our Service is an alternative, informal dispute resolution service. Although I may not address every point raised as part of this complaint - I have considered them. This isn't intended as a discourtesy to either party – it simply reflects the informal nature of our Service.

The sum insured

Mrs K took this policy out through a broker. Mrs K had a responsibility (through her broker) to make a fair presentation of the risk she wanted Fairmead to insure. Mrs K has referred to her mortgage offer recommending that the property be insured for £205,000 and said no reference was made to VAT.

On page 4 of the policy terms, under the bold heading 'IMPORTANT INFORMATION', it's stated:

"HOW MUCH COVER DO YOU NEED?"

It is YOUR responsibility to make sure that the amount of insurance cover YOU buy represents the full value of YOUR property.

For BUILDINGS cover the value must represent the full cost of rebuilding the BUILDINGS including any extra costs that may be involved such as demolition, architect's and surveyor's fees and any additional costs in meeting local authority requirements. [bold added for emphasis by Ombudsman]

For CONTENTS the value must represent the full cost of replacing all the property as new.

The maximum amount that WE will pay in the event of a claim is the SUM INSURED [bold added for emphasis by Ombudsman] *so it is very important that YOU insure YOUR property for the full amount of its value."*

Based on what I've seen, the sum insured was adequate - 'but for' the additional VAT that drove up costs. It is not Fairmead's responsibility if Mrs K was not registered for VAT and I've not seen any sufficiently persuasive evidence in relation to any issue with the information Fairmead asked for about the sum insured amount.

Therefore, any issue Mrs K has with the sum insured declared at policy inception needs to be discussed with her broker. The remainder of my decision is only considering how Fairmead considered and settled the claim.

Claim settlement

Mrs K declared a buildings sum insured value of £210,000. A large part of her complaint is that she believes under the policy terms, 25% should be automatically added to the sum insured *in addition* to the monthly indexing. At first glance, this would indeed be a very favourable approach for the policy holder.

In their final response letter, Fairmead stated:

"This was referred to the underwriters who clarified, when a risk comes around for renewal they apply the monthly indexation to the declared value as suggested by the Rebuilding Cost Index of the Royal Institution of Chartered Surveyors."

So I've referred to the relevant policy terms.

Index linking:

"The BUILDINGS SUM INSURED is increased monthly in line with the House Rebuilding Cost Index of the Royal Institution of Chartered Surveyors.....

For YOUR protection, if either index falls below zero WE will not reduce the SUM INSURED No charge is made for index linking during the PERIOD OF INSURANCE but at renewal YOUR premium will be calculated on the adjusted SUM INSURED. [bold added for emphasis by Ombudsman]"

I'd draw attention here to the second paragraph. The terms state that although monthly indexing does occur, the sum insured/premiums charged aren't materially adjusted until the point of renewal.

This is a relatively common type of term for this type of policy. In summary, it is intended to help ensure that at policy renewal, the sum insured automatically is increased for the following policy year, in line with inflation/building costs and cost of living. In short - to help protect against underinsurance.

The index can be found here <https://bcis.co.uk/insight/index-bcis-house-rebuilding-cost-index/> I find the approach Fairmead have taken to be fair and in line with the intention of the policy terms. As the terms states, if there is negative movement in the index, the policy holder doesn't lose out. Indexing *does* happen monthly, but the policy holder will only see the change at renewal. It's not intended primarily to be used in claims settlement.

Under the terms of this policy, when a claim is made, Fairmead would automatically add 25% ('day one' reinstatement) to the sum insured value. This was set out in the policy schedule:

PROPERTY DAMAGE SECTION

PROPERTY DAMAGE SECTION	
SECTION ONE: BUILDINGS	OPERATIVE
Total Buildings Declared Value	£210,000.00
Method of adjustment	Day one uplift
Day One Uplift %	25.00%
Total Buildings Sums Insured	£262,500.00
Buildings Accidental Damage	OPERATIVE
SECTION TWO: CONTENTS AND FIXTURES & FITTINGS	NOT OPERATIVE
Contents and Fixtures & Fittings Sums Insured	£0.00
Contents Accidental Damage	NOT OPERATIVE

The policy terms also set out the definition for sum insured: *"The amount shown on the SCHEDULE as the most WE will pay for claims resulting from one Incident unless otherwise stated In this Policy Wording or on the SCHEDULE."*

Whereas index linking is intended to help mitigate against underinsurance at renewal, the 'day one' uplift is intended to primarily make an allowance for any inflation. The benefit of this type of policy is it allows a tolerance level when declaring the sum insured at policy inception.

Although Mrs K has argued that she should benefit from both index linking and day one reinstatement, unfortunately for her - this is not the case. The main issue with her claim settlement is the addition of VAT. This pushes her repair/reinstatement costs higher than the claim settlement offered by Fairmead. I don't find that Fairmead have treated Mrs K unfairly or unreasonably here when offering to settle the claim in line with the policy terms and limits.

My decision will be disappointing for Mrs K, but it brings to an end our Service's involvement in trying to informally resolve this dispute between her and Fairmead.

My final decision

My final decision is that I don't uphold this complaint.

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

Daniel O'Shea
Ombudsman