

The complaint

Mr I and Miss P complain about the settlement offered by Admiral Insurance (Gibraltar) Limited in response to their claim for a lost ring.

What happened

The background to this complaint is well known to both parties, so I'll provide only a brief summary here.

Mr I and Miss P have a home insurance policy underwritten by Admiral. This covers their home and its contents. And it includes cover for possessions away from the home.

They made a claim after Miss P lost a ring whilst away from their home. The ring was a specified item included in the policy schedule, valued by Mr I and Miss P at £4,500.

Admiral accepted the claim. However, their agents (jewellery experts) said the ring was actually worth £6,500.

Admiral said they could replace the ring, but Mr I and Miss P would have to contribute £2,000 to the cost.

Mr I and Miss P didn't want to spend more to replace the ring, so they asked Admiral to pay them in cash, up to the £4,500 valuation specified in the policy schedule.

Admiral said they would only pay what it would cost to obtain a voucher to the value of £4,500 from their supplier. The cost to Admiral for that voucher would be £2,610, so that's what they would pay Mr I and Miss P in cash.

Mr I and Miss P weren't happy with this and made a complaint to Admiral. And when Admiral maintained their position, Mr I and Miss P brought their complaint to us.

Our investigator looked into it and thought Admiral hadn't acted fairly. She thought they should increase the cash settlement to the £4,500 valuation of the ring included by Mr I and Miss P in the specified items section of the policy schedule. And she said Admiral should pay Mr I and Miss P £100 in compensation for their trouble and upset.

Admiral disagreed and asked for a final decision from an ombudsman.

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.

There's no dispute here that the ring was undervalued in the policy schedule. The dispute is about the amount Admiral should pay.

Mr I and Miss P want Admiral to pay the £4,500 at which they valued the ring when they bought the cover, not the £6,500 it would actually cost to replace it.

Admiral want to pay the amount it would cost them to buy a voucher worth £4,500 – that is, £2,610. They can obtain the voucher for that amount because they get a reduction in cost due to the arrangements with their supplier.

In response to our investigator's opinion, Admiral have quoted guidance that we publish which says that in circumstances where:

“...it may cost them (the insurer) around £60 to give the customer a £100 voucher. If £100 is enough to indemnify the customer and the damaged item can be replaced by the company honouring the voucher, then that's reasonable. The customer gets indemnified and it helps the insurer keep costs down. But if the customer wants a cash settlement, it'll be the cost to the insurer of the voucher, which might be much less than the voucher value.”

In Mr I and Miss P's case, the amount Admiral are offering (£2,610) is **not** “enough to indemnify the customer”. In return for Admiral paying out that amount (to their supplier), Mr I and Miss P would only get a voucher to the value of £4,500 to spend with their supplier. Not enough to replace their ring (indemnify them).

Our guidance, in other words, covers cases where the customer could get their item replaced – like-for-like and completely – by taking the voucher. And it is the customer's choice to instead take cash – rather than get their item replaced (fully).

In those circumstances, it would of course be unfair to ask an insurer to pay out in cash more than they would have to pay to completely indemnify their customer. But, in Mr I and Miss P's case, we aren't in those circumstances – they can't replace their ring (and so be indemnified) by taking the voucher.

So, I'm satisfied the guidance set out above does not apply to this case. I'll turn now to what the policy documents say.

The relevant part of the policy booklet says:

“Section 2 (Contents), Section 3 (Cover away from your home) and Section 4 (Pedal cycles)

We will decide to either:

- *repair the item*
- *restore the item (for example, use professional cleaners for carpets)*
- *pay the cost of repairing the item*
- *replace the item as new, or*
- *pay in cash or vouchers up to the amount we could repair, restore or replace the item for.”*

In this case, Admiral aren't doing any of those things. They might argue that the last bullet point applies and that they're paying in cash up to the amount it would cost them to replace the ring.

But they're not doing that - they're in fact paying in cash an amount *lower* than the cost to them of replacing the ring (which is worth £6,500).

Of course, they are entitled to do that. The ring was undervalued by Mr I and Miss P when they bought the policy. And the policy terms are clear that Admiral will only pay up to the valuation amount of any specified item, as set out in the policy schedule.

But that *is exactly* what the policy terms do. For specified items, away from the home, the terms say admiral will provide cover:

“...for and up to the individual amount shown for each item”.

In my view then, those terms would create a legitimate and reasonable expectation in the customer that Admiral, if they were cash settling a claim, would settle any claim for an undervalued specified item at the limit set by the valuation of that item in the policy. In this case, that limit is £4,500.

In other words, it is not fair and reasonable for Admiral to apply a policy limit (set by the valuation of the item) *and then* apply the voucher reduction to that limited amount – because that limited amount does not (fully) indemnify the customer.

Our approach in cases such as this is that insurers can reasonably apply a policy limit (in effect, set by the valuation of the specified item), but it's neither fair - nor in line with the terms of the policy in this case – to further reduce that amount by applying a supplier's discount.

Putting things right

I'm going to uphold this complaint, for the reasons set out above.

And I'm going to require Admiral to cash settle the claim at the valuation of the ring set out in the policy schedule (£4,500).

Mr I and Miss P have experienced a degree of frustration and stress because they were led to believe – for a considerable amount of time - that they might not get a fair settlement of their claim.

And that was entirely due to Admiral's error in not settling the claim fairly at the outset.

On that basis, I agree with our investigator that Admiral should pay Mr I and Miss P £100 in compensation for their trouble and upset.

My final decision

For the reasons set above, I uphold Mr I and Miss P's complaint.

Admiral Insurance (Gibraltar) Limited must:

- cash settle the claim at £4,500; and
- pay Mr I and Miss P £100 in compensation for their trouble and upset.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I and Miss P to accept or reject my decision before 27 September 2024.

Neil Marshall
Ombudsman