

The complaint

Mrs B and Mr B are unhappy with the service provided by AXA Insurance UK Plc (AXA) after making a claim following a flood that damaged their home, outbuilding and contents.

Mrs B and Mr B are both parties to this complaint. Mr B has primarily dealt with this service. For ease of reference I have referred to Mr B throughout this provisional decision.

AXA is the underwriter of this policy. Part of this complaint concerns the actions of third parties instructed on the claim. AXA has accepted that it is accountable for the actions of third parties instructed by it. In my decision, any reference to AXA includes the actions of any third party instructed by AXA during the course of Mr B's claim.

What happened

Mr B took out home insurance with AXA online. As part of this application Mr B was asked about the cost of rebuilding his home. Mr B recorded this amount as £600,000. In May 2023 Mr B's home was subject to flooding, causing damage to his home, an outbuilding, and his contents.

As part of its investigation into Mr B's claim, AXA found that Mr B had underinsured the cost of rebuilding his home. AXA's surveyor determined this cost to be £1,056,000. Mr B instructed his own independent surveyor who determined the cost to be £998,000.

AXA informed Mr B that it would proportionately settle the claim for buildings based on an average basis. Applying this formula, Mr B was told 85% of his claim for buildings would be paid. Mr B was unhappy with this amount, and complained to AXA about the proportionate settlement and the way the claim value for buildings had been calculated. Mr B was also unhappy that alternative accommodation had been stopped despite the living conditions in his home being unsuitable.

AXA responded to Mr B's complaint in July 2023. AXA recognised that its service had been poor and agreed to pay Mr B £150 compensation. In respect of the claim decision it said *'The most recent note on file suggests that an outcome, following your evidence has now been reached and the claim is on the correct footing.'* AXA didn't explain what this would mean for Mr B's buildings, outbuildings, or contents claim, and specifically how much Mr B would receive, and how this would be calculated.

Mr B was unhappy with AXA's response, and brought his complaint to this service. The Investigator said AXA needed to do more to put things right. The Investigator recommended that AXA recalculate the value of Mr B's buildings claim using the formula adopted by this Service, review whether any further alternative accommodation or disturbance costs are due without applying a deduction for underinsurance, settle Mr B's contents claim without applying a deduction for underinsurance, and pay Mr B an additional £500 compensation for the upset caused between the period between May 2023 and July 2023.

AXA didn't respond to the Investigator's view. As the complaint couldn't be resolved, it has been passed to me for decision.

I issued a provisional decision on Mr B's complaint. This is what I said about what I'd 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'd like to reassure the parties that although I've only summarised the background to this complaint, so not everything that has happened or been argued is set out above, I've read and considered everything that has been provided.

I thought it would be helpful to provide some clarity about the Financial Ombudsman Service's role and the scope of the complaint that I'm deciding. Our role is to resolve disputes between complainants and financial businesses, to help both parties move on. It isn't our role to handle a claim or to deal with matters as they arise. In this decision, I will be considering matters complained of from 9 May 2023 until AXA's final response of 27 July 2023.

Underinsurance for buildings

When validating the claim, AXA established Mr B was underinsured. The Investigator found that AXA made Mr B reasonably aware that the sum insured needed to represent the full rebuild cost of the property. I've reviewed the evidence showing the online sales journey, and I agree with the Investigator's findings and outcome on the question of underinsurance. Mr B should've been aware that the declared sum would have needed to represent a sufficient amount to rebuild his property. I don't think Mr B gave a reasonable answer to AXA's question about the rebuild cost. As Mr B failed to do this, AXA's decision in saying Mr B had underinsured his property was fair.

The next question I've considered is the impact on AXA as a result of Mr B's response about the rebuild sum. As part of our investigation AXA was asked to provide evidence of what premium it would have charged at the time if it had known the sum insured for the property was greater.

In my first provisional decision I explained that I hadn't been provided with any evidence to say that the premium would have increased. So I was unable to say that the unreasonable answer Mr B gave about the rebuild cost made a material difference to the premium. Because of this I said I didn't think it was fair and reasonable for AXA to proportionately settle Mr B's claim on the basis that he was underinsured, and that it should pay the claim in full up to the policy limit of £600,000.

Since issuing the first provisional decision, AXA has provided evidence to confirm the impact of Mr B's underinsurance on the premium he would've had to pay had the correct rebuild cost been provided. The impact of Mr B's underinsurance to AXA is that it received less premiums than it would have if the sums insured had been accurate. AXA has recalculated what the policy premium would've been with the rebuild cost of £998,000. This evidence shows Mr B has only paid 85.95% of the premium he should otherwise have done.

Given Mr B has only paid 85.95% of the premium he should've, this is the impact to AXA as a result of the underinsurance. So, I'm minded to ask AXA to proportionately settle the buildings claim at 85.95% representing the proportion of the premium paid in line with our approach to complaints about underinsurance and premium proportionate settlement.

Outbuildings, Contents

At the time of bringing his complaint to us, AXA hadn't provided any evidence to Mr B or this Service about how it would settle the claim for damage to the outbuilding and contents. I haven't been provided with the questions Mr B was asked about insuring his contents. Based on the evidence I've seen, I'm minded to say AXA should settle the claim to the outbuilding, and contents, in line with the policy terms and conditions without applying any deduction for underinsurance.

Alternative accommodation and disturbance allowance

When AXA found that Mr B was underinsured, it stopped paying alternative accommodation (AA) costs. Mr B says he incurred additional costs whilst him and his family remained in their flood damaged home. I have considered Mr B's compelling testimony about the lack of hot water, and the general living conditions in his home after his claim for AA was stopped. I'm minded to direct AXA to pay Mr B disturbance allowance at a rate of £10 per day for each adult in the family at the insured property, and £5 per day for each child for the period 6 June to 22 June 2023. This represents the date Mr B returned home as a result of his AA costs being stopped, and when an interim payment was made for Mr B to use towards a new boiler and temporary cooking facilities. AXA should pay 8% simple interest per year calculated from 6 June 2023, to the date of payment.

Cost of report

Mr B incurred the cost of commissioning his own report from a surveyor to determine the rebuild cost of his property. During the investigation, AXA agreed to use this evidence in reaching a decision on Mr B's claim. I'm minded to ask AXA to reimburse the cost of this report, plus 8% simple interest per year calculated from the date Mr B incurred this cost, to the date he's reimbursed.

Impact

It's clear that AXA has caused delay in dealing with Mr B's claim. I haven't been provided with any evidence to reassure Mr B that the sum insured for buildings would've made a material difference to the premium he was charged. So I can't say that Mr B's underinsurance caused AXA to charge less for Mr B's cover than it would've done had the correct sum insured been provided at the time. AXA determined the claim on the basis of Mr B being underinsured, and this materially impacting the policy terms. I haven't seen any evidence to support AXA's decision on Mr B's claim.

I accept that the need to claim on an insurance policy inevitably causes some upset and inconvenience, even when things progress as they should. And it's important that any direction I make to AXA reflects the upset it has caused by its failings, rather than the upset of having to deal with the insurance claim itself. But AXA's actions have meant that Mr B has had to chase matters, instruct his own independent surveyor, and have repair work delayed for a prolonged period. And this has caused significantly more upset and inconvenience on a daily basis, over a sustained period than what would be expected for a claim of this type.

With this in mind, unless anything changes as a result of the responses to my provisional decision, I intend to direct AXA to compensate Mr B total compensation of £650 for the upset, stress and inconvenience caused to Mr B as a result of AXA's poor handling of his claim, and lack of clear communication about how it would be settled. If any of this amount has already been paid, I'm minded to ask AXA to pay the outstanding amount only.

Putting things right

I am minded to ask AXA Insurance UK Plc to:

1. *Proportionately settle the buildings claim at 85.95% representing the proportion of the premium paid for the rebuild cost of £998,000;*
2. *Add 8% simple interest per year on the difference between any amount already paid to Mr B for direction (1), and the amount outstanding, calculated from the date of any payments already made until the date of settlement;*
3. *Settle Mr B's outbuildings and contents claim in line with the terms and conditions of the policy;*
4. *Settle Mr B's claim for disturbance allowance in line with my findings above, and pay 8% simple interest per year calculated from 6 June 2023, to the date of payment;*
5. *Pay for the cost of Mr B's appointed surveyor's report, and pay 8% simple interest per year calculated from the date Mr B incurred this cost, to the date of payment; and*
6. *Pay total compensation of £650 for distress and inconvenience.*

**If AXA Insurance UK Plc considers that it is required by HM Revenue & Customs to take off income tax from that interest, it should tell Mr B how much it has taken off. It should also give Mr B a certificate showing this if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.*

My provisional decision

For the reasons given above, I am minded to ask AXA Insurance UK Plc to follow my directions for putting things right as detailed above.

The responses to my provisional decision

I invited both Mr B and AXA to respond to my provisional decision.

Mr B broadly accepted the provisional decision and provided additional comments about more recent failings by AXA when handling his claim. AXA didn't say whether it accepted or rejected the provisional decision. AXA provided evidence of the online sales journey which showed what Mr B was asked when taking out contents cover. AXA didn't provide any comments about the impact of this evidence on the complaint, or what it would mean for settlement of Mr B's contents claim.

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 B has provided a detailed summary of the challenges and upset caused to him by the poor handling of his claim. I am empathetic to all that Mr B has explained. It's clear that the claim remains open and unresolved. Our role is to resolve disputes between complainants and financial businesses, to help both parties move on. It isn't our role to handle a claim or to deal with matters as they arise. The focus of this decision has been the issue of underinsurance following Mr B's claim. Resolution of this issue should bring clarity on how Mr B's buildings and contents claim should be settled, and move the claim forward.

I have seen in response to the provisional decision Mr B has also said '*With regards to your settlement, we accept 100% of contents and buildings as stated.*' In my provisional decision I explained that I'd reviewed the evidence showing the online sales journey, and I agreed with the Investigator's findings and outcome on the question of underinsurance. Mr B should've been aware that the declared sum would have needed to represent a sufficient amount to rebuild his property. I don't think Mr B gave a reasonable answer to AXA's question about the rebuild cost. As Mr B failed to do this, AXA's decision in saying Mr B had underinsured

his property was fair. The impact of Mr B's underinsurance to AXA is that it received less premiums than it would have if the sums insured had been accurate. AXA has recalculated what the policy premium would've been with the rebuild cost of £998,000. This evidence shows Mr B has only paid 85.95% of the premium he should otherwise have done.

In line with our approach, it is fair and reasonable for AXA to proportionately settle the buildings claim at 85.95% representing the proportion of the premium paid by Mr B. This is in line with our approach to complaints about underinsurance and premium proportionate settlement. And I haven't seen any evidence to persuade me that this approach shouldn't be followed on this case. So I'll be directing AXA to settle Mr B's buildings claim proportionately for the reasons I've explained.

AXA has provided a screenshot of the question Mr B would've been asked when taking out contents cover. I note that at the time of Mr B raising his complaint, and throughout our investigation, AXA provided no comments on how it would be dealing with Mr B's contents claim, and whether it considered Mr B had underinsured his contents. Even at the time of providing evidence to this Service about the question Mr B was asked during the online process, AXA hasn't explained whether it considers Mr B's response to represent a risk of underinsurance, and/or the impact on the current claim.

In the absence of any evidence suggesting Mr B has underinsured his contents, given the time passed in dealing with the claim, and the opportunities AXA has had to explain its position to Mr B and this Service, I don't consider it fair and reasonable for AXA to apply a deduction for underinsurance when dealing with Mr B's contents claim. In line with the provisional decision, AXA should settle Mr B's outbuildings and contents claim in line with the terms and conditions of the policy without applying any deduction for underinsurance.

Neither party has provided anything that materially changes the outcome of Mr B's complaint, or my direction for putting things right. So I'll be directing AXA to put things right as set out in my provisional decision.

Putting things right

For the reasons set out above, AXA Insurance UK Plc must:

1. Proportionately settle the buildings claim at 85.95% representing the proportion of the premium paid for the rebuild cost of £998,000;
2. Add 8% simple interest per year on the difference between any amount already paid to Mr B for direction (1), and the amount outstanding, calculated from the date of any payments already made until the date of settlement;
3. Settle Mr B's outbuildings and contents claim in line with the terms and conditions of the policy;
4. Settle Mr B's claim for disturbance allowance in line with my findings above, and pay 8% simple interest per year calculated from 6 June 2023, to the date of payment;
5. Pay for the cost of Mr B's appointed surveyor's report, and pay 8% simple interest per year calculated from the date Mr B incurred this cost, to the date of payment; and
6. Pay total compensation of £650 for distress and inconvenience.

*If AXA Insurance UK Plc considers that it is required by HM Revenue & Customs to take off income tax from that interest, it should tell Mr B how much it has taken off. It should also give Mr B a certificate showing this if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons provided I uphold this complaint.

AXA Insurance UK Plc must follow my directions above for putting things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B and Mr B to accept or reject my decision before 13 January 2025.

Neeta Karelia
Ombudsman