



Case study: Insurance

INADEQUATE HOUSEHOLD INSURANCE TRANSFER INFORMATION LEADS TO UNFAIR POLICY VOIDANCE

Themes: Household insurance policy; insurance broker; inadequate sum insured; impact of index-linked sum insured; suitability and mis-selling.

This complaint relates to a mis-sold household insurance policy when the complainant was left a property by a deceased relative.

Mrs E inherited a property from a relative in 2015 and contacted her late relative's insurance broker for future household insurance cover for the property which she intended to rent out. When arranging a new policy for Mrs E, the broker requested her full name, date of birth and marital status, but no other details. The broker completed a 'statement of fact' using information regarding the property copied from the previous policy held by Mrs E's deceased relative. This was then sent to Mrs E to check and return. This happened at each renewal.

At the renewal in 2019, the statement of fact recorded the building sum insured for the policy as £1,055,754. This was based on the sum insured previously provided by the deceased relative but was index-linked which meant it had increased each year in line with inflation.

In January 2020, Mrs E made a claim under the policy following a flood at the property. The insurer said the building sum insured was less than half the property's rebuild cost. The insurer said that they would not have provided cover had they known the true figure. Mrs E complained that the broker should have declared an accurate rebuild cost when completing the application. The broker rejected her complaint stating that Mrs E should have reviewed the policy renewal details more carefully and Mrs E referred her complaint to CIFO.

CIFO explained that it was not the broker's responsibility to determine the rebuild cost of Mrs E's property. However, the broker had not requested adequate information during the application process to provide Mrs E with a suitable policy recommendation. CIFO said that the broker should not have assumed what the insured sum was without asking Mrs E and had neglected to inform the insurer about key details regarding the property and cover required.

CIFO concluded the policy had been mis-sold and that Mrs E would have found a suitable policy had the insurance broker fulfilled its obligations when selling the policy. CIFO also noted that the index-linking of the building sum insured by the policy, in the absence of any indication to the contrary from the broker or the insurer, gave a reasonable expectation that the adjustments made in line with inflation would satisfy the requirements to ensure effective insurance coverage on policy renewal. CIFO upheld the complaint and recommended the broker compensate Mrs E the full cost of repairs, the loss of rent and a payment for distress and inconvenience she had suffered. In addition, the insurance broker was recommended to contact the insurer and request that it rescind its

voidance of Mrs E's policy so that she was not in future required to declare she had a policy voided to other insurers. CIFO's recommended compensation exceeded its award limit of £150,000. The insurance broker offered £150,000 in full and final settlement of the complaint, which Mrs E accepted.