

The complaint

Mr R – on behalf of a company I'll refer to as "1" – complains about the way Zurich Insurance PLC handled and settled a claim under a Real Estate Insurance policy.

What happened

1 is the freeholder of a building that contains flats which is insured by Zurich. Mr R has brought a complaint to our Service on behalf of 1, so for ease of reading I'll refer to him throughout.

The basement flat of the building suffered flood damage in 2021 due to localised flooding. Zurich accepted the claim and cash settled it. The leaseholder of the flat where damage occurred was put into alternative accommodation.

Mr R says all payments in respect of the claim were paid to the leaseholder directly. And these should have been paid to 1's account as the freeholder of the building and the insured, communication was poor as Mr R wasn't kept updated with the progress of the claim or consulted on repairs, and the alternative accommodation costs were overstated. So, he complained to Zurich.

Zurich responded in October 2022 and January 2023. It said, broadly, that the leaseholder owned the flat, had paid premiums towards the policy, and therefore was a beneficiary of the contract of insurance. So, it didn't make an error when settling the claim directly with the leaseholder. It offered to pay Mr R – on behalf of 1 – £700 compensation in total as it accepted Mr R should have been kept better updated during the claim.

Zurich says loss adjusters handled the claim who provided their own costings along with scope of works from two suppliers, and it settled what was considered a valid claim in line with the policy. It also says alternative accommodation costs for the leaseholder could be considered high, but this was because the risk address is situated in an expensive area. And its loss adjuster considered the leaseholders alternative accommodation option to be reasonable – and proof these costs were incurred were assessed and considered correct and reasonable. Mr R remained unhappy with the way Zurich handled and settled the claim. So, he brought a complaint to our Service for an impartial review.

The investigator didn't recommend the complaint be upheld. She wasn't persuaded Zurich failed to handle and settle the claim fairly – or directly with the leaseholder as they were a beneficiary of the contract of insurance. And while Zurich ought to have provided better customer service to Mr R, she thought £700 compensation was fair.

Mr R didn't agree and asked for an ombudsman to decide, so the case was passed to me.

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.

1 is the freeholder of the building and named as the insured within the policy schedule. But the flat in question that was damaged by the insured event was owned by a leaseholder. The leaseholder of the flat was contributing towards paying the insurance premiums and had an insurable interest here because of their ownership of the flat. Therefore, I'm not satisfied it was unfair or unreasonable for Zurich to correspond with, or settle the leaseholder's claim to indemnify them directly, because they had an insurable interest in the property.

I accept Mr R, acting on behalf of 1, as the freeholder of the building also had an interest in the claim. And Zurich accept here it should have taken steps to provide a higher level of customer service by keeping Mr R up to date with the progress of the claim.

That said, I'm not satisfied Zurich – by keeping Mr R better informed – would have made a material difference to the overall outcome of the claim here. I say this because Zurich's liability was settling the claim to indemnify the leaseholder with the insurable interest in the property following a valid claim.

The claim was validated by a loss adjuster and costings for damage to the buildings were based on a scope of works from two different suppliers. I think it's safe to conclude these suppliers had no relationship with the leaseholder, as I haven't seen any evidence to the contrary. It's ultimately for an insurer to validate a claim and ensure costs are reasonable, and I'm not satisfied the evidence supports Zurich failed to take reasonable steps to validate the claim for the buildings.

Alternative accommodation was said to have been required and this is a policy benefit. Mr R says the amount paid in this respect was too high. The leaseholder sourced the alternative accommodation and Zurich say this was reviewed by loss adjusters who deemed the costs for a short-term rental agreement within an expensive area to be reasonable. It says no further options were considered here because it found the leaseholder's alternative accommodation request reasonable.

As mentioned above, it's for an insurer to validate a claim for alternative accommodation. Had Zurich had concerns over the cost of alternative accommodation, it would have been for Zurich to approach the leaseholder to source other options it considered was appropriately like-for-like, and within the local area of the risk address. In this case, Zurich relied on the opinion of the loss adjuster to conclude the alternative accommodation aspect of the claim. I'm satisfied it was fair and reasonable for Zurich to take these steps.

Therefore, in concluding, I'm not satisfied Zurich failed to validate the claim reasonably to indemnify the leaseholder who had an insurable interest in the property damaged by the insured event. I do agree Zurich ought to have handled matters better at times, and with a higher level of customer service – such as keeping Mr R better informed. But I think it took reasonable steps to recognise this when paying Mr R – on behalf of 1 – £700 compensation in total. Therefore, I don't require Zurich to take any further action here.

I accept my decision will come as a disappointment to Mr R – on behalf of 1. But it ends what we – in attempting to resolve its dispute with Zurich – can do in respect of this complaint.

My final decision

For the reasons I've mentioned above, my final decision is I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask 1 to accept or reject my decision before 28 December 2023.

Liam Hickey
Ombudsman