

## **The complaint**

Mr R complains about the pricing policy that British Gas Insurance Ltd (BG) used to calculate his home emergency insurance that he said he hadn't used.

## **What happened**

Mr R had a home emergency policy which he renewed each year since 2014. Mr R was sent a renewal notice in 2020, in which he noticed that the premium was quite high. He felt that the amount BG were proposing to charge him was higher than the average house insurance and as he didn't use the policy, he contacted BG to complain about the cost.

Mr R said that BG told him that his premium was calculated by using an algorithm which considered a lot of factors. Mr R felt this was unfair as those factors didn't take into consideration individual circumstances. During the call, BG offered Mr R a different level of cover which meant that his annual premium was reduced. Because of this reduction, Mr R believed that he had been overcharged over the years and raised a complaint with BG.

Mr R sought a refund of his annual premiums. In BG's final response, it said that Mr R wasn't overcharged. The policy he had previously was a different product to the one he was now offered. It said that at the renewal stage of each policy he was notified what the level of cover would be and what the cost would be, if he chose to continue with the cover. It confirmed that it had not added on any other charges that hadn't been agreed to by Mr R to any of the previous policies. So, it wouldn't be refunding any of Mr R's premiums.

Mr R was not happy with this outcome and referred his complaint to our service. One of our investigators considered his complaint and didn't uphold it. He said that BG had sent annual renewal notices to Mr R. Those notices provided details about the level of cover and the cost. As well as information about how Mr R could change or cancel the policy if he chose to.

He acknowledged that Mr R was unhappy about paying for a policy that he hadn't used. But he said that the policy offered Mr R protection and the opportunity to use it, had he needed to. So, there was nothing further he could reasonably ask BG to do.

Mr R didn't agree with our investigator's view. He said that BG relied on algorithms to conduct sham annual reviews, that failed to take into consideration individual needs. He said that our service should be regulating companies such as BG, to stamp out these commercial practices as they exploited customers. He concluded that we aren't equipped with the analytical and technological apparatus to grapple with the individual customer issues. So, he asked for a 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.

Having done so, I won't be upholding this complaint. I realise this will be a disappointment to Mr R, but I hope my findings go some way in explaining why I've reached this decision.

I should say at the outset that my role is to look at whether BG has treated Mr R fairly and in line with how other customers have been treated. If I find that BG hasn't treated Mr R fairly, then I will look at the level of compensation that should be awarded. I should also make it clear that we can't tell insurers what factors it should consider when assessing the risk of a policyholder making a claim, or what price they should charge, in order to cover that risk. But we need to make sure they're being consistent and not taking advantage of any groups of customers.

In 2014 Mr R paid £237.34 per year for cover. Over the years the price increased and sometimes decreased, until he was paying £316.56 per year. I need to look at whether BG treated Mr R fairly and in line with how we would expect it to have treated other policyholders.

When a policyholder hasn't spoken to an insurer after receiving renewal quotes year after year and pays the renewal price without engaging with the insurer or shopping around for a cheaper quote, we'd think it's fair to say that they were inert. We would expect that an insurer ought to be aware that the policyholder wasn't engaging and not increase the premiums because of a policyholder's inertia.

Having reviewed the evidence, I don't think BG increased the premiums because of Mr R's lack of engagement, and I'll explain why. It is common practice for insurance companies to offer a discounted premium for the first year and later increase the price in order to recoup the discount previously given. Also, it is usual for insurers to assess the risk, which may lead to an increase in the premiums.

In Mr R's case BG said that the premiums were affected because Mr R downgraded the policy to a cheaper one that didn't have the same kind of cover. Over the years, Mr R had made claims and the level of risk was affected because of the claims that Mr R made on the policy. But BG confirmed that it never made increases to the premium based on a customer's length of tenure. And the longer the customer's length of tenure meant the effect of claims on the policy was reduced to reward loyalty.

BG confirmed that it would've assessed the risk and priced the policy the same way for any other customer in similar circumstances to Mr R. And having reviewed the pricing evidence, I am satisfied that BG calculated the premiums fairly.

I understand the strong views expressed by Mr R, that BG charged him excessively for the policy and that it calculated his premium based on an algorithm. But insurers are entitled to use this methodology to calculate premiums. Just because cheaper alternatives are available, this does not mean that the policies are identical (which was the case here), nor does it mean that BG treated Mr R unfairly.

So, taking all of this into consideration, I don't think that BG has charged Mr R excessively nor do I think it treated Mr R unfairly. So, I won't be asking BG to do anything more to resolve this complaint.

## **My final decision**

For the reasons I have explained, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 6 September 2021.

Ayisha Savage  
**Ombudsman**