

The complaint

Mrs A has complained to Insurance Factory Ltd about the increase in premiums for her lifetime pet insurance policy.

All references to Insurance Factory include its agents.

What happened

Mrs A took out lifetime pet insurance through Insurance Factory in 2012. In June 2021 the insurer of her policy sent Mrs A renewal documentation which showed an increase in her annual premium from £609 to £1188 a year.

She complained about that. I've issued a separate decision dealing with her concerns about the insurer of the policy and the level of premium increases. This complaint relates to what happened at the point of sale and the impact of any failings there.

The insurer of the policy said it would pay her £175 as it accepted the information provided at the point of sale should have made the potential for premium increases clearer.

However, after the complaint had been made to us, we established it only became the insurer in 2015. So it wasn't responsible for the information initially provided to Mrs A. That's something Insurance Factory was responsible for.

Our investigator agreed the information which Insurance Factory was responsible for didn't make clear the extent to which premiums might increase in future years. She thought the impact of that on Mrs A was greater than Insurance Factory had recognised and said it should pay Mrs A an additional £325.

Insurance Factory didn't agree. It said Mrs A hadn't experienced any significant premium increases until the 2020 renewal. And the information she was provided with at that point explained the impact of claims on the premiums. It was the claims Mrs A then made which generated the premium increase in 2021 which prompted her complaint. It thought the compensation which had already been paid was fair. So I need to reach a decision.

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.

The information Insurance Factory provided about this policy should have made clear to Mrs A what the long term cost implications of taking out a policy like this might be. I don't think it's in dispute it didn't do that and so Insurance Factory is at fault here.

I've thought about whether Mrs A would still have taken out this policy if she'd been given clearer information. She chose to take out pet insurance, so she wanted some type of cover for her pet. And, as she chose to take out a lifetime policy, she clearly had some interest in the greater level of cover it provided. If Mrs A hadn't taken a lifetime policy, she would've

either had no cover at all, and would have had to pay for all her pet's treatment herself, or a reduced level of cover, where she would have found herself in a situation where her pet's ongoing conditions were no longer covered.

So I think it's likely she would still have gone ahead with the lifetime policy, even if she'd known the premium could increase significantly in the future. However, I do think better information about the policy would've meant that Mrs A wasn't so surprised and upset when the cost increased significantly – instead this would have been something she was expecting to happen. I've thought about what the right amount to recognise that is.

I can see when Mrs A first took out her policy the annual premium was around £206. The cost increased to around £300 the following year (as Mrs A had made a claim) but then reduced in the next two years. However, the cost of the policy nearly doubled between 2015 and 2020 and then increased by a further 95% between 2020 and 2021.

I appreciate the most recent increase was driven by claims Mrs A made on the policy. And I think she might reasonably have expected there to be a relationship between a claim being made and a subsequent increase in the renewal price. But I think the level of increase (a near doubling from around £600 to close to £1,200) is likely to have gone beyond what Mrs A might have expected. And, as I've said, there was also a significant increase in the cost of the policy between 2015 to 2020.

Insurance Factory say Mrs A could have shopped around when she received the 2020 renewal (as that was prior to the claim she made). But the renewal documentation only said the premium increase "*will be more significant if you have claimed*". I don't think that would have made clear to Mrs A the extent to which her premium was likely to increase as a result of any claim she might make.

I'm also mindful of the fact Mrs A took out this policy on the basis it would provide lifetime cover. So she would reasonably have thought she wouldn't need to shop around because the policy would provide ongoing cover for the life of her pet. And at the point of receiving the 2020 renewal documentation she'd been paying for it for eight years. Even if she had then shopped around for alternative cover I think it would have been upsetting for her to have to do so.

In any event her pet was by then eight years old. And any conditions it had developed (even if they haven't yet led to a claim) would be unlikely to be covered by a new policy as they'd be classed as pre-existing. I think that would have made finding alternative cover at a competitive price more difficult. In fact I think Mrs A is now likely to be faced with the difficult choice of paying the high cost of this policy on an ongoing basis or letting it lapse - meaning her pet is unlikely to be covered for pre-existing conditions under any alternative policy she takes out.

Of course if it had been made clear at the outset the extent to which the premiums might increase the distress Mrs A was caused when that did happen could have been avoided. But Insurance Factory has accepted it didn't do that.

I've considered the points it's raised as to why it doesn't agree the compensation in this case should be increased. But I don't think the amount it proposed does properly recognise the impact on Mrs A of what's happened. Taking into account the time she's had this policy for, the level of the premium increase (both in percentage and absolute terms) and the difficulties she'll now have in obtaining cover elsewhere I think the further compensation our investigator recommended is appropriate.

My final decision

I've decided to uphold this complaint. I understand Mrs A has already received £175 in compensation. If that's right Insurance Factory will need to pay her an additional £325. If Mrs A hasn't received any compensation to date Insurance Factory will need to pay her £500.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 25 May 2022.

James Park
Ombudsman