DRN-3439383

The complaint

Mr and Mrs B have complained that they've been overcharged for a number of years by UK Insurance Limited ('UKI') for their home insurance policy.

What happened

Mr and Mrs B took out their first home insurance policy with UKI in 2009 and their policy was automatically renewed each year. They didn't query the cost or 'shop around' until 2021.

In September 2021 Mr and Mrs B started to compare prices and realised that there were cheaper policies available. Due to the large difference in price, they felt they'd been treated unfairly despite being loyal customers, cancelled their policy, and requested compensation.

UKI disagreed and said the renewal prices offered to Mr and Mrs B were in line with its pricing structure and based on the level of cover Mr and Mrs B wanted. However, UKI said that as they'd been customers since 2009, it would pay £1,100 in total as a goodwill gesture.

Mr and Mrs B were unhappy with this offer of compensation and complained to this service. Our investigator upheld their complaint however she didn't recommend an increase in the compensation offered by UKI. She explained that insurance pricing practices and risk assessments change over the years, and so the price in 2021 didn't necessarily reflect the price in previous years. She also noted that when a customer takes out a new policy, it's often at a discounted price compared to the true cost of providing the insurance. She said that sometimes the premium will increase over time to recoup that discount.

Our investigator nevertheless considered that Mr and Mrs B's understanding that they were receiving competitive rates as loyal customers did provide a barrier to being able to query the rise in premiums. The investigator looked in detail at the premiums and percentage increase that Mr and Mrs B had paid through the life of the policy. She concluded that what the industry refers to as 'consumer inertia' was likely to have happened and that at some point, the premium increases became unfair.

In conclusion, our investigator explained why she didn't recommend a further compensation payment by UKI. She said that the difference between the price paid at the point of inertia in 2013 and the price paid each year from then until the policy was cancelled in 2021, (together with interest), was less than the compensation already offered by UKI

Mr and Mrs B remain unhappy with the outcome of their complaint and the matter has therefore been referred to me to make a final decision in my role as 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.

My role is to determine whether UKI treated Mr and Mrs B unfairly or unreasonably in the way it increased premiums over several years. I've concluded that the overall increase was unfair and unreasonable, however I consider that UKI have now responded in a fair and reasonable manner by offering compensation of £1,100. I'll explain how I've reached this conclusion.

Mr and Mrs B believed that their premium had been increased unfairly and without good reason. They said they'd been loyal customers for 12 years and assumed they'd automatically be treated fairly and given the best price by UKI. In 2021, they realised that their premiums were substantially higher than those paid by new and other customers. They provided evidence of the premiums paid over the years and the much lower amount they would have been charged as new customers. They said that they'd paid premiums of over £6,000 in total and felt that UKI had overcharged them by £4,000 or £5,000. They thought that interest should also be payable.

Mr and Mrs B said that although they'd been able to shop around for a cheaper policy, they were led to believe this wasn't necessary. They were alerted by family members however in 2021 that their insurance was significantly less than that of Mr and Mrs B for a much larger property. From reading UKI renewal letters, Mr and Mrs B felt they'd been given the impression that, although they may find cheaper policies*; 'as valued customers we would have better treatment by staying where we were...'* They now considered that they were being *'ripped off'.*

Finally, Mr and Mrs B couldn't understand why the premium figure in 2013 of £513.04 was used as the baseline to calculate compensation, as it was higher than the premium paid nine years later. They said, *'By that time our insurance premium had more than doubled, and we were unaware that we could 'negotiate'. There is no reason given for the increase from previous years of such a magnitude and we believe that this particular year premium being chosen…as acceptable is grossly unfair.'* They said their premiums had quadrupled and they didn't think that UKI had provided adequate compensation.

In summary, Mr and Mrs B felt they'd lost out financially due to *'underhand behaviour'* and they wished to receive*; 'a full refund of the difference between what has been paid, and the discount price charged to new customers for the same deal.'* They said this should be backdated to the second year of the policy (2010), together with interest of 8%. They felt that they'd been taken advantage of for loyalty to a reputable institution.

Turning to what UKI say about the matter, it maintains that, except for 2018, the policy was renewed automatically. It confirmed that the renewal prices were in line with its pricing structure, based on the level of cover Mr and Mrs B had requested previously. It referred to claims made on the policy in 2016 and 2017 and a loyalty discount of £71.68 given in 2018. It said that this discount was due to home ownership status changing from mortgaged, to owned.

UKI stated that *'due to a very competitive market-place, new policies will invariably be cheaper due to introductory offers to attract new customers. These discounts are usually removed following renewal of the policy, which then increases the cost of insurance in subsequent years.'* Also; *'We do update our risk models and thus our view of risk can vary for a given customer between policy years and past claims do flow into our view of risk.'* It didn't consider the premiums had changed substantially going back to 2015 or that the policy had been priced other than as would be expected during its lifetime.

In summary, UKI didn't consider it had made any errors as regards the premium, however it said it had offered £1,000 compensation on a goodwill basis to resolve the complaint. It agreed however that it could have done more around the renewal date to speak with Mr and Mrs B to ensure they were happy with the product and cost of the service it was providing. *'Had we been able to discuss your policy with you, we may have been able to offer a discount…'* It said it had calculated compensation with interest from 2013, when the deemed ‘inertia’ occurred. It said it also offered £100 compensation for what it acknowledged to have been a poor level of service when Mr B had complained.

The starting point is to for me to explain that this service has a settled approach to ‘inertia’ cases. The service recognises that when an insurer hasn’t spoken to its customer at insurance renewal, there is potential for customers to lose out on the best available terms and prices. Whilst this isn’t an exact science, our general approach is that if customers haven’t engaged with the insurer for over four years, the relationship is deemed to be ‘inert’. This cut-off point may seem arbitrary however the service appreciates the need for a fair and consistent approach. So, the inertia point identified by the service is usually deemed to be at the fifth renewal. By this point we generally consider that the business should have been aware that the customer wasn’t likely to engage with the renewal process.

This final decision also takes account of the following factors. Two claims were made on the policy and this is likely to have led to an increase in premium. It recognises that UKI acknowledged a change in home-ownership status and adjusted the price of premium downwards at that point. Also, as a general point, insurers are entitled to charge premiums and decide upon risk criteria as they see fit. It is then for customers to choose whether to buy a particular policy. The fact that there may be similar policies available at a cheaper price doesn’t mean that the premium is automatically unfair.

Having noted the above, I’m satisfied that Mr and Mrs B accepted UKI’s auto-renewal processes on trust over the years and didn’t query the price, albeit there was some limited contact made in 2018. I also note that Mr and Mrs B had taken the view that they didn’t need to shop around, as they assumed they’d be treated fairly and reasonably by UKI due to their loyalty. Having been customers for some years, they thought they were receiving competitive premiums as valued customers. I’ve concluded that this brings the matter within our usual approach to ‘inertia’.

Mr and Mrs B were sent renewal notices which set out how much they would need to pay for the policy if they continued with it. It’s the case however that UKI weren’t acting as a broker, so it didn’t have to search the wider market for the best available price. It did however need to treat Mr and Mrs B fairly when it came to the premium it was charging. I’m satisfied that Mr and Mrs B’s loyalty and trust presented a barrier to engagement and that this was likely to have led to higher premiums being charged than would otherwise be the case. I note that Mr and Mrs B were only alerted to the issue in 2021 by family members.

Our investigator provided both UKI and Mr and Mrs B with a detailed synopsis and table which itemised premium payments and percentage increases over the relevant 12-year period. I don’t intend to reproduce this table in my final decision. In summary however, I’ve noted that the premium was just £264.60 when the policy started in 2009. In 2013 it was £513.04 and by 2020, it had reached £620.48.

Having considered this synopsis, I’m satisfied that it’s reasonable to say that a policy that has run for around 12 years will see some increase in price due to inflation and other general increases in cost. However, home insurance prices have remained relatively stable between 2005 and 2018 based on industry wide information and Consumer Price Index (CPI) data. I note that the 134.5% cumulative increase as identified by our investigator is a very significant rise in premium since policy inception in 2009. I don’t consider that UKI has provided sufficient evidence to explain this cumulative increase (either before or after the inertia point). When this is the case, our general approach is that it’s likely that we consider that the customer has been treated unfairly and we’d expect the business to compensate them.

The point when price increases for an inert consumer become unfair will vary from case to case. I agree that in this case, it's likely that UKI took advantage of this 'inertia' and that over the course of 12 years, the premium increases became unfair. In accordance with our service's usual approach, I'm satisfied that it would be fair and reasonable to treat 2013 as the baseline. By that stage, it would have been reasonable for UKI to appreciate that despite rises in premiums, Mr and Mrs B hadn't engaged with them to query or negotiate the price. I note that UKI recognised the issue and calculated compensation with interest from 2013 when the deemed 'inertia' occurred.

As for any discount to attract new customers, this concept wouldn't automatically be treated as unfair. Our service generally considers that it's fair to recoup any new customer discount through future premiums. We wouldn't therefore direct a refund based on the difference between what has been paid and the discount price charged to new customers. I've received no evidence to suggest that Mr and Mrs B have been treated differently to other customers in this respect and can't say that UKI has treated Mr and Mrs B unfairly or unreasonably.

In conclusion, I uphold Mr and Mrs B's complaint to the extent that I don't consider that UKI treated them fairly and reasonably in continuing to increase premiums by cumulative percentage increases after 2013. I therefore agree with our investigator that it would be fair for UKI to refund the difference between what Mr and Mrs B paid in 2013 and what they paid every year after that, together with interest.

As UKI have already offered compensation of £1,100 which exceeds the above amount, I conclude that it represents an appropriate level of compensation for the failure of UKI to treat Mr and Mrs B fairly and reasonably in relation to consumer 'inertia'. I note that this also includes a sum of £100 in relation to the quality of service Mr and Mrs B received. I consider this to have been a fair and reasonable sum to recognise the inconvenience caused by this.

I appreciate that Mr and Mrs B will be disappointed by this decision as they don't consider that £1,100 adequately compensates them for what has happened here. I'm satisfied however that the level of compensation is fair and reasonable in all the circumstances and I don't require UKI to do anything else.

My final decision

I uphold Mr and Mrs B's complaint on the substantive issue however I don't require UK Insurance Limited to pay further compensation for the reasons given above.

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 15 June 2022.

Claire Jones
Ombudsman