DRN-3506262

Financial Ombudsman Service

The complaint

Mr M complains that Royal & Sun Alliance Insurance Plc trading as More Th>n (RSA) have charged far higher premiums for many years on the renewal of his buildings and contents policy than were available to a new customer. He would like a refund of the overpayments.

What happened

Mr M took out his policy with RSA in 1996 and says he was a loyal customer. He'd been happy with the way it handled claims and thought he was being offered a competitive premium at renewal. He says he queried the renewal price in 2018 and was given a discount. He contacted RSA again in 2020 to discuss the renewal price which had increased to £1,024.08. Mr M says he decided to make further enquiries and was able to arrange another policy with RSA, offering similar cover for only £368.04. Mr M thought he'd been overcharged in the past and complained to RSA.

RSA didn't accept the complaint. It said it hadn't made an error in pricing his renewals. It said it regularly reviewed its prices which altered to reflect changes in the insurance market. It said Mr M had been free to shop around elsewhere. It said the terms and pricing structure of the new policy may differ from the old one and new business quotes included an introductory discount. Mr M decided to refer his complaint to our service.

Our investigator looked into it and she decided to uphold it in part.

Our investigator said records were only available from 1998. These showed premiums had increased over the period, but that Mr M had only queried the renewal price twice in 2018 and 2020. But she didn't think his lack of engagement, or inertia, over much of the period had led to RSA treating him unfairly. As RSA appeared to have priced his policy in the same way as for other customers. And, it hadn't taken advantage of his loyalty by increasing his premiums to boost profitability.

However, she said when Mr M queried the premium in 2018, RSA should have gone further than offering a discount. It should have discussed whether any cheaper alternative policies were available. RSA said it would only have offered an alternative policy if Mr M had asked, because, it didn't offer advice. Our investigator said RSA hadn't treated Mr M fairly. She said it should calculate the difference Mr M had paid between his policy and the alternative for the years 2018 and 2019 and refund this to him with 8% interest.

RSA accepted this view. It said that an alternative policy was available with a premium of

£808.49. This was around £100 less than the renewal price Mr M paid in 2018.

Mr M disagreed. He said he recalled calling RSA more often about the premium than just in 2018 and 2020. And, sometimes his renewal premium had reduced, he felt because he'd contacted RSA to discuss it. And, when he took out the new policy it was around £650 cheaper than the old one, not the £100 RSA was claiming.

As Mr M doesn't agree it has come to me to decide.

I issued my provisional decision on 2 May 2022. I explained the reasons why I was planning to uphold the complaint in part. I said:

I've considered all the available evidence and arguments to decide (provisionally) what's fair and reasonable in the circumstances of this complaint. Having done so, I'm planning to uphold the complaint in part.

After our investigator gave her view both Mr M and RSA raised further points. And I requested more information about how RSA had calculated the premiums for the alternative policy. Having considered everything, I've come to a different conclusion about how the complaint should be resolved. So, this decision is provisional in order to give both Mr M and RSA the opportunity to make any further comments.

RSA has provided much information about the policy and premium changes over the years. Much of this has been shared with Mr M, and I won't repeat it here. As he knows some of the information is confidential as it is commercially sensitive. Having looked at all the evidence I don't think RSA treated Mr M unfairly in the period up until 2018. But I don't think it treated him fairly in 2018 and he has a financial loss as a consequence. I'll explain why.

The period before the 2018 renewal

As Mr M wasn't engaging with RSA there was a risk that this inertia resulted in him paying more for his cover than if he'd shopped around instead. But that doesn't necessarily mean RSA was treating him unfairly if his premiums did increase over the period.

Our service usually considers a customer to have become inert if they haven't engaged with their insurer by the time of the fifth renewal of the policy. By then we'd expect the insurer to have recovered any initial discount it offered when the policy started. After this, we'd expect the insurer to be able to justify increases in premium as being reasonable.

When was Mr M inert

Mr M recalls calling RSA about the renewal price on several occasions, but doesn't have any other evidence about this, which isn't surprising given the timeframe involved. RSA's records go back to 1998. These note Mr M called it in 2006 and 2007 to make changes to the policy and over several claims made. But there aren't any discussions recorded about cost until 2018 and again in 2020.

I haven't seen anything to make me question the accuracy of RSA's records. So, in the absence of other evidence that Mr M engaged with RSA at other times, I'm satisfied that he was inert for two periods, between 2001-2007 and 2012-2018.

Many factors influence insurance pricing, which change over time. The insurers view on risk may change, costs might rise, or claims may have been made on the policy. Factors like these are fair reasons why premiums might increase. But, raising premiums just to boost the insurer's profit margin would be unfairly taking advantage of the customer's loyalty.

So, I've considered the premiums Mr M paid and RSA's profit margins on the policy. Whilst premiums increased there isn't any evidence RSA was treating him unfairly with it able to explain why his premiums increased overall.

In summary, there were three significant changes to the way RSA viewed risk, as well as increases in claims costs and insurance premium tax. Mr M also changed from paying premiums annually to monthly from 2008. This added a charge for finance, partly explaining the increase in premium for that year.

Both the pricing of and the profit margin on Mr M's policy appears to be typical to that of other customers with the same policy in similar circumstances. So, whilst the price of the policy increased, I don't think RSA treated Mr M unfairly between 2001-2007 and 2012-2018, when he was inert.

After the 2018 renewal invitation

After Mr M contacted RSA in 2018 I think it should have discussed any alternatives it had in case a saving was available, not just a discount on the existing policy.

RSA says it would only offer a new quote if Mr M specifically requested one, because it doesn't offer advice. I don't consider discussing possible alternatives would have been providing Mr M with advice. Mr M would be the one making any decision to change just as he did in 2020, having made his own enquires. By not mentioning there were alternatives I think RSA treated Mr M unfairly as concluded by our investigator.

RSA accepted this conclusion and the proposal it should calculate the alternative premium for 2018 and 2019 and reimburse the difference to Mr M, with interest added at 8% per year simple.

But when RSA provided the alternative premium for 2018 Mr M said this was still much more than he'd actually paid in 2020. I queried this with RSA. It said the calculations were correct and it also provided alternative premiums for 2019 and 2020. These were also considerably higher than what Mr M had paid in 2020.

RSA said that it had worked out the alternative premiums 2018 and 2019 "mapped as best we can the old product …against a like for like … product". It also said:

> *"I know questions will be asked on why Yr2020 premiums shared above are different to the new policy that the customer is on …*
>
> *These differences will be to differences in cover, channel and mapping differences used from the old policy and assumptions when calculating new business premiums and what has been actually used for the new policy."*

I considered this and I don't think it's fair for RSA to base the alternative premium calculations on the old policy conditions and pricing factors.

It has confirmed that the new policy Mr M arranged in 2020 was available in 2018. Mr M dealt with his old policy by telephone and was able to arrange the new policy the same way. It doesn't appear that different sales channels or other marketing considerations would have prevented RSA from dealing with this in 2018.

I've considered the cover offered by the two policies. This isn't identical but it is very similar. The new policy has a higher excess but offers more contents cover overall, though less for some individual items. I don't think the differences between them are material. Mr M certainly didn't as he went ahead and took out the new policy due to the significant saving it offered.

The new policy reflects Mr M's home benefitting from burglar and smoke alarms where the old one didn't. This isn't something I'd expect Mr M to realise might be costing him money under his old policy, unless it was pointed out to him. But even allowing for such factors, the difference between the back calculated and the actual new policy premiums remains substantial.

I think the difference can only be explained by a significant discount (that RSA suggests would be available on a new policy) being given on the policy Mr M took out in 2020. But then not being allowed for in the back calculations.

Because Mr M didn't specifically ask for a new policy quote in 2018, he wasn't offered one. When he did, comparing the actual 2020 premium to the back calculated premium provided by RSA suggests he obtained a new business discount of around 43%.

I think RSA should have told Mr M there were alternative products available. Had it, I think he would have asked for a quote. And as a new business discount appears to have been given in 2020, I think it's fair that a comparable discount be applied to the historic premium calculated for 2018.

Putting things right

So, at this stage I think it's fair that RSA calculates what it owes Mr M overall by applying this level of discount to the 2018 back calculation. As RSA would have planned to recover the *discount over a four to five-year period it's reasonable that the premiums it calculates for 2019 and 2020 reflect this.*

This means it's likely that the premium calculated for 2020 would be higher than what Mr M actually paid in 2020, but those for 2018 and 2019 should be significantly lower than he did pay. I also think it fair that RSA should add interest at 8% per year simple on the additional premiums that Mr M has paid.

I asked both parties to let me have any further information or comments they wanted me to consider.

Response to provisional decision

Mr M said he was pleased I was planning to uphold his complaint but made a number of points. For ease I will set these out below.

RSA acknowledged my provisional decision and said it was reviewing it but hasn't commented further.

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've decided to uphold the complaint in part, along the lines set out in my provisional decision.

I understand Mr M feels strongly about the matter, but I don't think there is evidence that RSA has taken advantage of his loyalty in the period up to 2018. At that point as Mr M had clearly engaged about price, I think it should have done more than it did and discussed alternatives in order to treat him fairly.

I've considered the additional points Mr M has made. I've set these out below followed by my comments in italics.

- He said he did recollect contacting RSA in the past to discuss price and questioned the accuracy of its records. He said RSA had subsequently confirmed he did have building insurance in 2004 rather than this being added in 2007 as it had initially said in explaining a price increase. This showed its records weren't reliable. *But they are the only records available. Older records are commonly deleted, in part to comply with data processing regulations.*
- He asked as he'd contacted RSA in 2006 and 2007, why hadn't alternatives been discussed then if he was inert. *There was some engagement and the premium did reduce in this period, but it isn't clear why. RSA says changes were made to the policy in 2007 with an additional premium raised during the policy year but hasn't been able to expand further on why this was. This engagement ended the period of inertia, but there isn't any evidence that Mr M was expressing dissatisfaction with the premium. That means there's no evidence RSA were aware or should have been aware that Mr M might have been interested in hearing about an alternative policy if one were available. I've asked RSA to demonstrate that the renewal premiums it offered in subsequent years were reasonable and there isn't any evidence they weren't. This includes years where the premium both increased and decreased on the prior year and RSA has been able to explain what factors were causing premiums to change.*
- He said the premium history showed a number of reductions, with significant ones in 2014 and 2015. He was *"sceptical"* that RSA offered these as part of its standard process offered to all customers against a backdrop of rising premiums generally. He said, on balance, these reductions were due to him calling RSA to challenge the

renewal premium. And if he had called, should alternatives not have been discussed then. *But, unfortunately, there isn't any evidence that Mr M did call to discuss the premium. The reduction in 2014 was 10% and only 2% in 2015. As Mr M points out neither he nor RSA can provide copies of the original renewal documents for the years in question, so the initial renewal premium offered isn't known. I agree this means it's possible that the reduction to the prior year might have been larger than it appears. However, we do have evidence of RSA's profit margin on the premium charged for each year. It is reasonably consistent until 2015 and in fact declines from 2016 onwards despite premiums increasing more rapidly. This suggests that the premiums being offered weren't unfairly being increased to grow profits on the policy but reflect RSA's claims experience and changes to how it assessed risk and other factors impacting pricing over a long period of time.*

- He said he understood the earlier policy was a closed product and if the profit margin for his policy was typical didn't this mean RSA was overcharging all the customers with the policy, given the *"staggering"* discounts available on new policies. *The profit margin on Mr M's policy suggests RSA wasn't profiteering and there will be differences between the exact cover each individual customer had. RSA wasn't obliged to offer the lowest premium in the market. That discounts were offered to new customers was both common practice in the industry, and I think common knowledge to consumers. Mr M wasn't tied into the policy and could have shopped around, he chose not to, but RSA doesn't appear to have taken advantage of this to increase its profit.*
- He was confused by the comparison of premium and cover offered by the old and the new policies where I had said the cover was broadly the same. Why were there material differences (in cost) unless inert customers were being taken advantage of? *The level of cover isn't identical but is broadly similar and reflects newer underwriting processes. I'm only considering the circumstances of Mr M's complaint here. And in his case, these new processes seem likely to have reduced the premium. But this might not have been the case for all customers with this policy. In some areas the replacement policy offered less cover, which might be an important differential to some customers. RSA wasn't giving a recommendation about the policy or cover level, that's for the consumer to decide. And renewal documents issued from around 2012 would have prompted customers to shop around for alternative quotations which might have offered cost savings. Once Mr M engaged about price had RSA made him aware of alternatives it had available via the same sales channel we think it would have treated him fairly.*

  The discount offered on taking out a new policy does appear to account for most of the difference in price. Recent rule changes mean an insurer should offer the same price on renewal that it would offer a new customer on the date of the renewal. Historically some insurers attracted new customers with discounts, hoping to recover the discount at future renewals - typically over the next four years or so if the customer didn't arrange their cover elsewhere.

So, taking everything into account I don't think RSA treated Mr M unfairly in the period up until the 2018 renewal. But at that point it should have discussed available alternatives with him and failed to do so. Had it done so it seems likely that a cost saving would have been available to Mr M whilst still providing appropriate cover for his requirements, so it's fair that the extra premiums he has paid are reimbursed.

Putting things right

I think it's fair that RSA calculates what it owes Mr M overall by applying the 43% discount Mr M secured to the 2018 back calculated premium, reflecting any underwriting advantages the replacement policy would have offered. As RSA would have planned to recover the discount over a four to five-year period it’s reasonable that the premiums it calculates for 2019 and 2020 reflect this.

This means it’s likely that the premium calculated for 2020 would be higher than what Mr M actually paid in 2020, but those for 2018 and 2019 should be significantly lower. I also think it’s fair that RSA should add interest at 8% per year simple on the additional premiums that Mr M has paid.

My final decision

For the reasons I’ve given above and in my provisional decision, my final decision is that I uphold this complaint against Royal & Sun Alliance Insurance Plc trading as More Th>n.

I direct Royal & Sun Alliance Insurance Plc trading as More Th>n to calculate the premiums for the alternative policy in 2018 with the same level of discount he obtained in 2020 and the appropriate renewal premiums it would have offered in 2019 and 2020. The difference between these and what Mr M has actually paid should be refunded with interest at 8% simple per year.

If Royal & Sun Alliance Insurance Plc trading as More Th>n considers that it’s required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr M how much it’s taken off. It should also give a certificate showing this if Mr M ask for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr M to accept or reject my decision before 16 August 2022.

Nigel Bracken
Ombudsman