

The complaint

Mrs B complains that Lloyds Bank General Insurance Limited (Lloyds) has treated her unfairly with the cost of her buildings insurance over a number of years.

What happened

Mrs B's buildings and contents was insured with Lloyds from 2009 until 2020. When the insurance was first taken out it cost £219.32. In 2020 the cost of the insurance had risen to £533.33. Mrs B didn't speak with Lloyds about her insurance renewal each year, instead she allowed it to automatically renew year on year.

In 2020, Mrs B's daughter was helping her to review her finances, she was shocked to see how much she was paying for her insurance and helped her to look online for an alternative. She found a similar policy that met Mrs B's needs for just over £100 per year.

Mrs B complained to Lloyds. She felt she'd been treated unfairly by it over the years with the price it charged for insurance and she asked that it refund what she considered to be the overcharged amount.

Lloyds didn't feel it had done anything wrong. It couldn't give any specific details behind this as the information is commercially sensitive, but it said things like increases in IPT and changes in its approach to risk have had an impact on the price of the policy overtime. Overall, it felt the policy had been priced in line with its approach to this and it didn't think it needed to do anything else in relations to Mrs B's complaint.

Our investigator looked at Mrs B's complaint. He thought something had gone wrong and Lloyds needed to do something to put things right.

He thought it was clear Mrs B wasn't engaging with the cost of her policy for some time and he wanted to be satisfied that any price increases made were fair and she wasn't being treated differently because of her lack of engagement. He accepted that when the policy was first taken out, Lloyds offered a new customer discount and it was fair that it increased the price of the policy to recoup this. He thought it was likely this would have been recouped by 2013. From 2018, he was satisfied that Lloyds had demonstrated it had treated Mrs B fairly with how the premium was calculated.

To put things right, he asked that Lloyds refund the difference between the price paid in 2013 (£404.79) and the price paid each year from then until 2017. He said inflation could be added to this amount in line with the consumer price index.

Mrs B accepted the outcome. Lloyds hasn't confirmed if it agrees with the outcome and because we've not had a response on this, the case has been passed to me for 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.

Having considered this complaint, I've decided to uphold it, for much the same reasons as our investigator.

With complaints about insurance pricing, it is not the role of this service to say what price should have been charged. To do so would be price setting and outside of our remit. But we can look to see whether customers have been treated fairly with how the cost of their policy has been set. And where we think someone has been treated differently or unfairly, set out what we feel is reasonable to put right this unfairness.

It isn't disputed the Mrs B didn't engage with Lloyds about the cost of her insurance when she was insured with it. She isn't someone who regularly shopped around and it wasn't until her daughter prompted her to do so that she did. Her daughter assisted her with looking online for another provider and Mrs B realised she could find insurance that meets her needs for significantly less than she was paying before.

When a consumer isn't engaging on the cost of their insurance, either through vulnerability or something else that stops them from doing this, we'd say they are inert. And when looking at complaints brought by inert consumers, we expect to see that they've not been treated differently as a result.

When Mrs B first took out her policy, it benefited from a new customer discount and Lloyds recouped this overtime. This is something that was common with insurance previously and as Mrs B had the benefit of the reduced premium when the policy was first taken out, it is fair that Lloyds increase the premium to recoup the discount applied. This is something that would generally happen with all of its policies and Mrs B wasn't treated differently because of her lack of engagement.

By 2013 when the new business discount had been recouped, Mrs B had been insured with Lloyds for 5 years with the 2013 renewal being her fourth renewal invite. With no engagement on her renewals at any point before this, I think it would be fair to say she was inert and Lloyds would have been aware of this with her lack of engagement at renewal.

The cost of Mrs B's policy continued to increase after the new business discount was recouped. Lloyds explained that part of the reason for this increase was because of changes in the Insurance Premium Tax (IPT). Between 2015 and 2017 IPT did see some significant increases seeing this rise from 6% to 12%. And I think it's fair to say this would have had some impact on the cost of Mrs B's policy. But I don't think it would be reasonable to say this is fair justification for all the price increases on Mrs B's policy. Between 2014 and 2015 alone, the price increased by over 20% with a yearly increase of nearly £100. With Mrs B's renewal period being at the start of the year, and the first changes in IPT not taking place until October/November 2015, it is clear this wasn't a factor in the price change for this year.

From 2018 onwards Lloyds can demonstrate that it was treating Mrs B fairly. At this point it introduced a new pricing model – the details of this cannot be shared as they are commercially sensitive to Lloyds' operating model – but it has shown this service that Mrs B's premium was calculated in the same way that all Lloyds customers premiums were from this point. So her lack of engagement had no bearing on the price, nor was it indicated that she was treated differently as a result.

But Lloyds' hasn't been able to demonstrate why Mrs B's price changed as it did from 2013 through until 2017. In the absence of this, I'm not persuaded she wasn't treated differently because of her lack of engagement. And I think she lost out as a result as she wasn't treated fairly.

As I've said previously, it isn't the role of this service to set the price of insurance. But when

we think someone has been treated unfairly, we'll set out what we think is fair to put right this unfairness.

Our investigator recommended that Lloyds refund the difference in what Mrs B paid for insurance from 2013 onwards until 2017 (the 2018 price was not included because of the new model in place at this point). He said that it would be fair to allow the 2013 price to be increased with inflation. And Lloyds should add 8% simple interest on this amount.

I think this represents a fair and reasonable way to put right the unfairness of Mrs B being treated differently. Inflation should take account of all factors impacting the price. So I'd expect the application of this will also reflect the increases in IPT, as I think it would be fair to allow for the policy to increase with the changes in these costs. And based on what has been shared with this service about Lloyds model from 2018 onwards, I don't think Lloyds needs to do anything else beyond the refund set out above.

Putting things right

Lloyds Bank General Insurance Ltd need to do the following to put things right.

- Take the 2013 price for Mrs B's insurance (£404.79) and refund anything paid in excess of this until and including 2017. It can allow for this price to increase yearly with inflation, taking account of changes to IPT.
- It should pay 8% simple interest on the amount paid above. If it feels necessary to do so, it may deduct tax at the standard rate from this payment and provide Mrs B (upon request) with a statement to confirm the tax deducted.

My final decision

For the reasons I've set out above, I uphold Mrs B's complaint against Lloyds Bank General Insurance Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 16 September 2022.

Thomas Brissenden
Ombudsman