DRN-3611426

The complaint

The estate of Mrs T complains that Lloyds Bank General Insurance Limited has treated her unfairly when pricing her buildings and contents insurance over a number of years.

What happened

The estate of Mrs T was shocked to discover how much the late Mrs T was paying for her home insurance. Mrs T's insurance was provided by Lloyds from 2006 until 2020 when it was cancelled midterm. In 2006 the annual cost of the policy was £198.21 and by 2020, this had increased to £599.62 for the year.

The estate of Mrs T has said, Mrs T was not someone who had access to the internet or comparison sites and Mrs T relied on Lloyds to treat her fairly. They feel her loyalty has been taken advantage of and the price Mrs T paid was not reflective of the cost the insurance could be found for.

Lloyds looked at the complaint and accepted that Mrs T was unlikely to be able to shop around and compare prices. It reviewed how her policy had been priced over the years and said that it felt the policy had been priced correctly. But Lloyds upheld the complaint based on the circumstances of Mrs T. It made a payment of £71.30 to the estate of Mrs T, this payment represented £25 for the distress and inconvenience, and a part refund of the premiums paid with 8% interest added.

Our investigator looked at the late Mrs T's complaint and said he felt she was inert on the price of her insurance as she'd never engaged with Lloyds on the price of it. He asked Lloyds to demonstrate that the price increases applied to Mrs T's policy didn't indicate that she was treated differently or unfairly because of her inertia.

Lloyds explained why the price had changed overtime, including how it applied a discount to the price of the policy when it was first taken out. And it shared information about how it has priced the policy in more recent years, explaining how it's pricing model has been applied.

Our investigator accepted that, for the most part, Lloyds had been able to explain why the price of Mrs T's policy had increased because of changes to the cost that Lloyds applied to all customers. So the removal of new customer discounts and application of pricing models applied to all. But there was a point in the pricing history where he felt the price had increased without fair explanation and he asked Lloyds to go further with its refund. He recommended the following:

- Lloyds to refund the difference between the price paid in 2012 (£335.26) and the price paid each year from then until 2014, allowing for inflation in line with the consumer price index (CPI).

- From 2015 through until the policy was cancelled in 2020, refund any difference in premium where the price paid exceeded the maximum target price in place at the time.

- To add simple interest to the refund at 8%.
- Less any refund already paid.

Lloyds has accepted and offered to make the payment in line with the recommendation.

The estate of Mrs T has not accepted the outcome. They feel there is a lack of transparency on how the price of Mrs T's policy was reached and are concerned that other customers like Mrs T have been treated unfairly like this. They believed the cost of the insurance was extortionate and the outcome didn't address this or go far enough.

Because the estate of Mrs T has disagreed with the outcome, the complaint 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.

I've decided to uphold this complaint for the same reasons as our investigator and feel the redress recommended is fair. I know the estate of Mrs T will be disappointed by this, but I'll explain why I've reached this decision.

It is clear that the estate of Mrs T is concerned about how much Mrs T was charged for her insurance and that she is an example of how many other vulnerable customers are likely treated. The focus of my decision is on the facts of the late Mrs T's complaint, but I understand why the estate is concerned about this.

The estate of Mrs T has also explained that it feels Mrs T should have been paying considerably less for her insurance for its duration. But this belief is based on the cost of comparisons with other policies and this alone, doesn't indicate that Lloyds has done anything wrong with how it has priced the policy. Each insurer will take its own view of the risk and provide insurance for a cost it thinks is fair to cover this and its associated expenses. Comparison sites demonstrate how different each insurers price can be and no one price is right or wrong. So while I don't dispute that the late Mrs T could have insured her property for significantly less, I don't think this shows Lloyds acted unfairly or that the cost of comparisons should be used as a benchmark for any redress.

Our investigator has shared details about recent changes in regulation brought in by the Financial Conduct Authority (FCA). These came into force in January 2022 as the FCA looked to address wider concerns about the cost of insurance and renewal pricing for existing customers. These rules are not retrospective but going forward, place an obligation on Buildings and Motor insurance providers to ensure the price offered at renewal is no more than the equivalent new business price. This means renewing customers should never pay more than new customers.

As I say though, these rules weren't in place when Mrs T's insurance was provided by Lloyds. But Lloyds needed to make sure it was treating customers fairly and I've considered whether I think it has been able to demonstrate this when looking at how it priced the late Mrs T's policy.

The estate of Mrs T has explained why they feel she was unable to shop around easily, with no access to the internet to assist with this. And she felt a sense of loyalty to staying with Lloyds and trusted she was being treated fairly. It is clear though, regardless of the reasons, that Mrs T didn't engage with Lloyds on the price of her policy and renewals were accepted each year as the policy automatically renewed. So I think it is fair to say that Mrs T was inert on the price of her policy.

The question is whether Lloyds treated Mrs T fairly when pricing her insurance, thinking about her lack of engagement and her circumstances.

Lloyds, like most insurers offered policies with new customer discounts. This is something that was common in the marketplace as insurers sought to attract new customers. Lloyds has explained to us how much discount was applied and that it recouped this overtime. This isn't unfair as a practice and I'm satisfied that Mrs T was treated fairly when the cost of her policy increased to recoup the discount applied when the policy was taken out. Looking at her premiums, I think this would have been recouped by 2012 and so any increases in price after this point would not be associated to the new business discount being removed. But I think any increases before this have been applied fairly and Mrs T was not treated differently because of her lack of engagement.

For the years 2013 and 2014, Lloyds hasn't been able to provide anything to explain why the policy increased in price as it did. It says changes to Insurance Premium Tax (IPT) and inflation will have had a bearing on these costs, but it is unable to point to anything specific to explain the increases. In the absence of being able to provide this information, I think it's fair that Lloyds refund anything paid in excess of the 2012 premium after allowing for any increase in line with CPI inflation for 2013 and 2014. I'm not satisfied the price increases during this period demonstrate that Lloyds was treating Mrs T fairly.

Lloyds has provided this service details on how it has priced its insurance policies from 2015 onwards, explaining how each model it had in place at the time calculated the premium. These details are commercially sensitive and I cannot share the exact detail. But they apply the same formula to all policies and have been used to demonstrate whether Lloyds was treating customers fairly with a maximum target price.

On reviewing the target price information, it is clear for some years, Mrs T paid more than the target price. The difference was minimal but regardless, it shows she was treated differently. So I'm not satisfied that Lloyds has demonstrated it was treating the late Mrs T fairly at this point and it is right that Lloyds do something to address this. Lloyds has agreed to refund the difference between the target price and what Mrs T paid for these years, together with simple interest added. I think this is a reasonable way to put right this unfairness.

Putting things right

Overall, I think Lloyds has failed to demonstrate that it consistently treated the late Mrs T fairly and it needs to do the following to put things right.

- Refund the estate of Mrs T, the difference in what was paid for the insurance in 2013 and 2014, in excess of the 2012 price – allowing for increases in line with CPI inflation.

- From 2015 onwards, refund to the estate of Mrs T, anything paid for the insurance in excess of the target price in place at the time.

- Pay 8% simple interest on the refunds detailed above.

- Lloyds may deduct from this total, any refund already paid.

My final decision

For the reasons I've explained above, I uphold the late Mrs T's complaint against Lloyds Bank General Insurance Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask the estate of Mrs T to accept or reject my decision before 16 December 2022.

Thomas Brissenden
Ombudsman