DRN-3632084

Financial Ombudsman Service

The complaint

Mr and Mrs O complain that Lloyds Bank General Insurance Limited ('Lloyds') unfairly increased their home insurance premiums over the period of cover.

What happened

Mr and Mrs O had a Lloyds home insurance policy, originally taken out in February 2004. In February 2021, their circumstances changed so they contacted Lloyds to discuss their cover. Following these discussions, they cancelled their policy and switched insurer. They're unhappy that:

- The Lloyds policy wasn't suitable for them in the first place; and
- Lloyds unfairly increased their premiums over the period of cover.

Lloyds told Mr and Mrs O that it couldn't investigate the sale of their policy given how much time had passed since then. It also said their premiums were calculated fairly, and they'd been able to discuss their cover at each renewal – or switch to another insurer – but hadn't done so.

Mr and Mrs O didn't agree with this and brought their complaint to us. They want Lloyds to refund at least part of their annual premiums because they believe they were paying too much for their insurance.

Our investigator recommended that the complaint should be upheld. He explained this service's approach to this type of complaint, and that, in his opinion, Mr and Mrs O should be considered 'inert' customers from their policy renewal in 2014 onwards. He thought Lloyds should refund part of their premiums from 2014 to 2020 and set out how he thought this should be calculated.

Lloyds disagreed with our investigator and questioned his redress calculation, so the case was passed to me to make a final 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.

First, ombudsmen decisions are published so are written in a way that prevents customers from being identified. The circumstances of Mr and Mrs O – in particular, the cover they believed they had and why they decided to cancel their policy – are well known to both parties so I'm not going to set them out here. If I'm vague about them it's to keep Mr and Mrs O from being identified, not because I've ignored them or think them irrelevant.

Second, Mr and Mrs O's complaint that the policy was unsuitable was considered under a separate complaint to this service. My decision is only about their premium increases.

The 'General Conditions' section of Mr and Mrs O's policy booklet (page 55) covers renewal:

"*If we offer to renew your policy automatically, you give us permission to do so on the basis of the renewal premium and policy conditions, details of which we will send you before the renewal date*." But, while the policy term allows Lloyds to renew the policy automatically, the important question for me is whether it was fair for Lloyds to rely on this term.

When a customer hasn't spoken to their insurer after receiving their renewal quotes for more than four years, we think it's fair to say they were 'inert'. Put another way, at that point we think an insurer ought to have been aware the customer wasn't engaging with it.

Lloyds told us: "*Until 2021 when the customer called to cancel the policy, we received no contact from them to discuss the price of their policy*." So, in this case, I think it's fair to say Mr and Mrs O stopped engaging with Lloyds in 2009. There were no changes in cover and Lloyds hasn't explained the reason for the premium increases. I think that at some point after this, the premium increases became unfair.

Lloyds has told us about the discount it applies to new policies and how the policy premium increases over time as this is recouped. Generally, we think this is fair. But once the price of the policy has increased beyond the new business price plus initial discount, we'd expect Lloyds to tell us what's caused this. In Mr and Mrs O's case, this point was reached in 2014.

Lloyds introduced a target pricing model in 2016. This is effectively a cap on the premium Lloyds will charge and it can apply this model retrospectively to 2014. The target price and how it's calculated is commercially sensitive so I can't share this with Mr and Mrs O. But it's based on what Lloyds feels it needs to charge to be able to cover its risk, operating costs, and agreed profit margins. The model shows if Lloyds is applying a consistent pricing approach to all its customers and isn't taking advantage of their lack of engagement.

What that means is that Lloyds can show if the premiums it charged customers from 2014 was within this target pricing range. If the customer didn't pay any more than the target price, we'd say the premium was fair. Lloyds has said it will refund anything paid above the target price if the customer was vulnerable or there were barriers preventing them from shopping around.

I've reviewed Mr and Mrs O's premiums against Lloyds' target pricing from 2014 onwards. This shows:

- Their premiums were above the target price in 2015, 2016, 2017, 2018, and 2019.
- Their premium was below the target price in 2020.
- They cancelled the policy before renewing in 2021.

Mr O explained that there was a specific risk he needed cover for. He believed his Lloyds policy covered this and, based on his experience when he originally searched for this specific cover, didn't think it was insurance he could easily find elsewhere. It was only when he called Lloyds to remove this specific cover in 2021 that he discovered this wasn't a risk covered by his policy. In the circumstances, I understand why Mr and Mrs O hadn't engaged with Lloyds about their policy renewals and hadn't shopped around to try to find cheaper cover elsewhere.

For the reasons above, I'm satisfied that Lloyds should refund the difference between the premiums paid by Mr and Mrs O and the target price for the years 2015 to 2019, plus interest.

My final decision

My final decision is that I uphold the complaint. I require Lloyds Bank General Insurance Limited to:

- Refund the difference between Mr and Mrs O's premiums and the target price for 2015, 2016, 2017, 2018, and 2019. This comes to £1,324.60.
- Add interest to these amounts at 8% simple per year from the date each premium was paid to the date of settlement*.

*HM Revenue and Customs requires Lloyds Bank General Insurance Limited to take off tax from this interest. Lloyds must give a certificate showing how much tax it's taken off it if Mr and Mrs O ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs O and Mr O to accept or reject my decision before 27 December 2022.

Simon Begley
Ombudsman