DRN-3747361

The complaint

Mr and Mrs B have complained that they've been overcharged by Barclays Bank UK Plc ('Barclays') over a number of years for their buildings and contents insurance policy.

What happened

Mr and Mrs B took out their first insurance policy with Barclays in 2011 and the policy was renewed each year. Mr and Mrs B contacted Barclays in autumn 2021, having been told by a friend that they may be paying higher premiums than they needed to. They then received a quote for an alternative policy with Barclays for £1,028. As the original renewal quote for their policy for 2021/22 had been for around £2,460, they felt they'd been treated unfairly and that their premiums had been increased over the years without good reason.

Mr and Mrs B wished to receive a full refund of premiums over £1,028, plus interest. Barclays didn't accept this element of the complaint and said that it had correctly priced all renewals. It said that the terms, ratings and pricing strategy and structures of old and new policies differed, and that Mr and Mrs B had the right to decline a particular policy. Barclays did however offer £50 in compensation in relation to certain administrative matters. Mr and Mrs B were unhappy with this and referred their complaint to our service.

Our investigator didn't uphold Mr and Mrs B's complaint. Our investigator thought that Barclays had priced the policy fairly each year in line with its pricing policy and thought that Mr and Mrs B were treated in the same way as any other customer in similar circumstances. Without shopping around or requesting a review of cost, our investigator considered that prices generally keep increasing and customers could miss out on any new products. The investigator accepted that the bank wouldn't proactively help customers get the best offer. She said that although this may feel unfair, it was standard practice across the industry.

Mr and Mrs B were unhappy with the outcome of their complaint and the matter was then referred to me for consideration in my role as Ombudsman. In September 2022, I issued a provisional decision for this complaint and explained why I was minded to uphold Mr and Mrs B's complaint as follows; -

'The matter for me to determine is whether Barclays treated Mr and Mrs B unfairly or unreasonably during yearly renewals. I've concluded on a provisional basis that Barclays didn't acted fairly in all respects. I'll explain how I've reached this provisional conclusion.

Insurance pricing practices and risk assessments do change over the years. When a customer takes out a new policy, it's often at a discounted price to the true cost of providing the insurance, and sometimes the premium will increase over time to recoup that discount. The fact that the price of an insurance policy has gone up and that there might be similar, cheaper polices available elsewhere, doesn't necessarily mean something has gone wrong.

Nevertheless insurers still need to treat their customers fairly and reasonably. This means that Barclays needed to treat Mr and Mrs B fairly when deciding what premium to charge at each renewal. It needed to consider the extent to which Mr and Mrs B were engaging with the renewal process and any reasons for failing to fully engage. I now turn to the evidence *and what Mr and Mrs B and Barclays say about the matter.*

Mr B said he'd queried premiums in 2021 as a friend told him he was paying too much. Mr and Mrs B had been long-standing customers of Barclays. Having been alerted to a possible issue, Mr and Mrs B thought they'd been charged substantially more than they were charged in 2011 when they were paying just under £820 for their policy. They accepted that they'd let their policy automatically renew as they trusted their insurer to be acting ethically in providing the market rate. Mr B said that when he spoke to Barclays in autumn 2021, its representative agreed that the premium was quite high and offered to look at another Barclays product that might be cheaper. Mr and Mrs B considered it to be a like for like product with small variations but cost around £1,430 less.

Mr and Mrs B felt they hadn't been helped or advised by Barclays of a cheaper rate. Mr B said; - 'I only get one letter a year and nothing to say there is a new policy or new covers'. Mr B said that he suffered from ill health and that the large increases had further affected his health. In summary, he felt he'd needlessly paid thousands of pounds over a decade and, due to personal circumstances, his 'eye was not on the ball here.' Mr B agreed that he'd previously asked why the prices kept rising. He said he was told that this was in response to nationwide floods and the costs involved with claims. He felt that he'd never received an answer why there should be such a large difference on a like for like policy. Over the last seven years, he said that he'd paid over £20,000 for his insurance.

Barclays confirmed that Mr and Mrs B's policy had been rated correctly and that the renewal prices were correct. It stated that the premiums were calculated for the type of policy in place, the cover selected, the information it held and its view of risk. It said the quote given in autumn 2021 was on a new and totally different product, with different rating factors, and couldn't be considered as a like for like comparison. It further explained that each product had its own 'specific individual core set limits, terms and conditions, exclusions and rating models based on the risk information we hold unique to that policy type'. It said that this meant that there could be large variances in premiums when comparing different policy types. It said the cheaper quote given in 2021 was based on much more information and a different pricing strategy. Factors such as protection of no claims discount, type of cover, the excess amount and a previous claim such as in this case, could all lead to price differences.

As for a specific comparison with Mr B's new policy purchased in 2022, Barclays provided details of what it considered to be differences in cover. These included different excess amounts, estimated rebuild costs, certain issues not included as 'add-ons', amount of cover on certain items and protection of no claims discount. It said that all these differences could make differences to the price and the way the policy was rated.

Barclays noted from its records that Mr and Mrs B had discussed their policy at times during renewals. It acknowledged that this was sometimes to do with the number of adults living in the property, however on occasion, it had also been to discuss the price of the policy. Barclays considered that Mr and Mrs B had therefore been aware of renewal and price issues. It said that it was 'each company's commercial right to charge what they feel is, the correct premium based on the above information and as the customer, you have the right to accept or decline the renewal invitation sent to you.'

It said that it had informed Mr and Mrs B of alternative products within their renewal invitations since 2015 as follows: - 'We have recently launched a new way to insure your home and your possessions. You can now choose from a range of independent covers, which may be better suited to your needs, and you may also be able to reduce the overall cost of your cover. There is no obligation for you to switch your policy but if you would like a quote, or want to discuss the cover options available, please visit…' It confirmed that its new product quoted for in autumn 2021, was released in 2015. Barclays stated that since 2019, it *had also informed customers of the option to shop around as follows: - 'Please check this cover still meets your needs. You have been with us a number of years. You may be able to get the insurance cover you want at a better price if you shop around'.*

In relation to one administrative matter, Barclays apologised for its departure from what it referred to as its usually high standards of service. As a representative hadn't left a message on Mr and Mrs B's answering machine and due to wait times, it offered £50 in compensation.

In considering this case, I'll firstly explain that this service has a settled approach to 'inertia' cases. When consumers don't engage with the renewal process, don't 'shop around' and keep paying for insurance even when the price has increased significantly, the service generally refers to this as insurance 'inertia'. It recognises that there is then potential for customers to lose out on the best available terms and prices and for a business to take advantage of this inertia to increase premiums and profits. Whilst this isn't an exact science, our general approach is that if a customer hasn't engaged with the insurer for over four years, the relationship is then deemed to be 'inert'.

I've looked at Mr and Mrs B's circumstances to understand whether this was a case of insurance 'inertia'. I've therefore looked at the extent and nature of any engagement on renewal, whether there was any barrier to Mr and Mrs B being able to engage and what has prompted them to complain. I've provisionally concluded that Mr and Mrs B didn't 'shop around' for the duration of their cover with Barclays. There was some dialogue between Mr and Mrs B and Barclays on renewal in some instances. The question is whether that dialogue amounted to conscious engagement about the price and alternative policies. In the absence of telephone records, I've carefully considered Barclays' case notes.

There is little information about contact for the period 2011 to 2014. I note from the available records that there was some dialogue between Mr and Mrs B in 2014 and that Mr B had then complained about the price of his insurance and that this complaint was resolved. Contact in 2015 did not appear to relate to price but indicated that Barclays was aware of certain personal difficulties being experienced by Mr B. In 2016, Barclays noted that Mr and Mrs B called to discuss the renewal price and that they had indicated that they might have to look elsewhere. At this point, certain adjustments were made to the policy and Mr and Mrs B accepted an adjusted price. Apart from updating the number of adults at their property, it appears that Mr and Mrs B didn't subsequently challenge the price of the policy.

In all the circumstances and on a provisional basis, I consider that the available evidence points to insurance 'inertia' in the light of the significant year on year increases in price and limited engagement. Mr and Mrs B didn't 'shop around' or consciously engage with Barclays about cheaper policy options until autumn 2021.

The point when price increases for an inert consumer become unfair will vary from case to case. The question of when the relationship became 'inert' isn't an exact science. Whilst there is evidence of challenge to the price in 2014, there is no evidence of any challenge to the price in 2015. This was the year in which Barclays' new product became available. Again, there's evidence of a limited price enquiry in 2016, however that only resulted in slight adjustments to the policy and there appears to have been no reference to a possible cheaper alternative option in telephone contact. I therefore consider that insurance 'inertia' applied in this case from 2015 onwards.

I accept that Mr B was only alerted to a potential price issue in autumn 2021. Mr B candidly stated that due to his difficult personal and health circumstances he'd taken his eye 'off the ball'. He also accepted that he didn't call to ask for a better policy. On a provisional basis, I'm persuaded that Mr and Mrs B hadn't fully engaged with the renewal process as they thought *they were receiving competitive premiums and the best policy for their needs. As longstanding customers, they accepted on trust that they were receiving a favourable 'market rate'. I consider that these factors were barriers to effective engagement, and that lack of engagement was likely to have led to higher premiums being charged than would otherwise be the case. Whilst they queried price on occasions, they'd understood that price increases were due to the industry's response to nationwide floods and that they were still being offered competitive insurance. I consider that if Mr and Mrs B had understood that there were cheaper comparative policies available, they would have opted for a cheaper policy.*

I appreciate the renewal information provided by Barclays about possible cheaper policy options. I also appreciate that Barclays wasn't acting as a broker, so I wouldn't expect it to search the wider market for the best available price on behalf of its policy holders. However, it did still need to treat Mr and Mrs B fairly regarding the premium it was charging. Based on the evidence I've seen, and due to Mr B's personal circumstances, I consider that Barclays should have realised by 2015 that Mr and Mrs B hadn't been shopping around for their insurance cover or negotiating the best policy and price alternatives at renewal each year.

As Mr and Mrs B complained to Barclays in 2014 about the price of its policy, I consider that it would have been fair and reasonable for Barclays to have provided clear information in subsequent years. In particular, it could have referenced the new product introduced in 2015 during the telephone contact in 2015 and in following years. This would have allowed Mr and Mrs B to make a fully informed decision about price. I note from the case notes that during renewal, some concessions and reductions had been made under the existing policy. There is however no reference to any alternative policies or options. Whilst possible alternatives had been referenced in recent renewal documentation, I don't consider that this was particularly clear, or a substitute for information offered during telephone contact in this case. Mr B hadn't appreciated from the renewal letter that there was a possible alternative policy. Barclays' representative properly and appropriately provided this information in autumn 2021, and I consider that it could fairly and reasonably have done so in previous years.

Barclays' representative noted in 2021 that the premiums were 'quite high'. I agree and consider that the significant premium increases over 10 years should have alerted Barclays that there was an issue here, particularly when Mr B's personal difficulties were noted in 2015. I provisionally conclude that it's fair that the extra premiums that Mr and Mrs B have paid should be reimbursed. I've therefore looked at the premiums that Mr and Mrs B have paid through the life of the policy as well as the percentage increases each year. In summary, I've noted that the premium was just under £810 in 2011, it was just under £1,315 in 2015 and had reached just under £2,245 by 2021 (albeit the premium in 2016 was less than that in 2015). In this case, the cumulative premium increases are very significant, and I consider it likely that Barclays were advantaged by 'inertia' and that over the course of the years, the premium increases became unfair.

I've seen no evidence to suggest that Mr and Mrs B have been treated differently to other customers. I also appreciate that different products are rated differently depending on approach to risk and that any claims, level of cover and excess levels all affect the price which an insurer may charge. Not all price increases are unfair and a policy that has run for over 10 years is likely to see some increase in price due to inflation and other general increases in cost. Home insurance prices have however remained relatively stable between 2005 and recent years, based on industry wide information and Consumer Price Index data. In this context, I don't consider that Barclays has provided sufficient evidence to explain this very significant cumulative increase. Nor do I consider that the reasons given for the difference in price for the new and old policies adequately explain the extent of the difference. When this is the case, our approach is that it's likely that the customer has been treated unfairly and we'd expect the business to compensate for this.

In summary, it's not for us to tell an insurer how to price its policies. However, where a consumer is effectively 'inert' and there are barriers to full engagement as in this case, the insurer needs to show that it has acted fairly and reasonably in increasing premiums year on year. My provisional conclusion is that Barclays hasn't been able to provide sufficiently persuasive reasons to explain the increases. Neither do I consider that it did enough to highlight alternative policy options in the circumstances of this case. I therefore consider that it would be fair for Barclays to refund the difference between the quote for the new product of £1028 given in autumn 2021 and the sum they paid every year from 2015, together with interest. I appreciate that the equivalent policy may have been cheaper in 2015 as prices do tend to increase year on year. I consider this to be a fair outcome in all the circumstances however, bearing in mind the fact that the 2021 quote will have been given on the basis of additional information and a different rating strategy.'

In my provisional decision, I asked both Barclays and Mr and Mrs B if they had any further comments or evidence they would like me to consider before I made 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.

Mr and Mrs B have accepted the provisional decision and haven't provided any further submissions or evidence. Barclays have however provided additional evidence in the form of telephone call records and also comprehensive submissions. I have listened to all calls and considered the submissions submitted by Barclays in detail.

Barclays say that *'When a customer calls into the centre to discuss their policy, these calls are customer led and we are non-advisory. If the customer calls to cancel their policy and if we think another product may be suitable, we may mention the new product then.'* This approach is noted, however a fair and reasonable approach would be for the insurer to be alert to customer inertia and take a more proactive approach, not only when they call to cancel but also when they renew their insurance at a significant increase in premiums.

In its response to the provisional decision, Barclays does acknowledge Mr B's health concerns and makes the point that if Mr B was unable to deal with insurance matters due to this, then Mrs B as a person named on the policy, could have engaged with Barclays or nominated a friend or a family member to discuss the policy on their behalf. It didn't therefore consider Mr B's ill-health to be a barrier to engagement. This is a valid response. It doesn't however alter my ultimate conclusion that there remained underlying barriers to engagement notwithstanding Mr B's health issues. Mr and Mrs B hadn't fully engaged with the renewal process as they thought they were receiving competitive premiums and the best policy for their needs and, as longstanding customers, accepted on trust that they were receiving favourable rates.

Barclays make the point that it didn't know where the friend who alerted Mr B to the issue lived and that his/her policy might not be comparable. I agree, however the provisional decision did not turn on this point. A relevant comparable policy was quoted for by Barclays in 2021. It also stated that it was standard industry practice for a customer to receive only one letter a year. Again however, the provisional decision did not turn on this point.

As to the level of contact by Mr B, Barclays stated that Mr B had contacted it nearly every year, *'either to discuss his renewal price or to add items onto the policy.'* It provided details of historical contact it had with Mr B including his dissatisfaction with the price quoted in 2014 and its subsequent letter informing him that the price was correct. In 2015 the telephone call on renewal was about a range of issues including occupancy but Mr B was happy to go ahead with the revised price. The representative said that if Mr B had any questions he should call. There was a subsequent call from Mr B about employment issues.

At 2016 renewal, Mr B wanted an explanation for an increase in price and this was explained, to include the fact that 'flood re' had come into effect and changes in cover. It was also explained that there could be no discount due to a recent claim on the policy. Mr B said he might get a quote elsewhere and then due to changes in excess amount he was quoted an amount which Mr B was happy to accept. In 2017 and 2018, Mr B was happy to renew the policy without discussion about the price being high.

The provision of detailed information by Barclays regarding the level of telephone contact is appreciated and is helpful in providing a fuller picture of events. Nevertheless, this doesn't alter the provisional conclusion that by 2015, it should have been apparent that Mr and Mrs B hadn't been shopping around for their insurance cover or negotiating the best policy and price alternatives at renewal each year. I've also noted that in 2015, Barclays became aware that Mr B was struggling with an issue at work and had that he'd sought help and advice from it which supports Mr B's contention that he'd taken his eye of the ball.

Barclays have referenced the service's approach to CPI figures suggesting little change in home insurance premiums over time and states *that 'this is not a realistic measure of what inflationary factors are impacting...'* It acknowledges that home insurance has been a very competitive market for many years, however it states that the cost of claims and of servicing such policies has increased dramatically. It states that annual claims inflation runs typically at 4% to 5% and gives a very detailed list of factors which can influence inflation, and which are outside its control. It describes how different insurers have tackled this issue. It explains however that Barclays had *'chosen to maintain customer outcomes should they be unfortunate enough to need to use our product.'* It concludes that CPI is not a realistic measure to assess the inflationary factors impacting insurance claims.

Barclays has also provided its predicted claims ratio as a percentage of premiums across six years from 2016 and it says it was clear that it had made a loss in this instance and was not able to cover its commission and expenses. It considered that the customer had received great value for money over the last six years.

Whilst Barclays detailed arguments about claims inflation are noted and appreciated, it hasn't however taken the opportunity to provide further evidence to explain the specific calculations leading to the very significant cumulative increase in the case of Mr and Mrs B's policy. Neither has it taken the opportunity to provide a breakdown to fully and adequately explain the specific reasons for the difference in price for the new and old policies. Apart from general reference to addition of protected no claims discount, a particular claim, removal of an item and increases in excess amounts, no specific breakdowns and explanations have been given for significant increases in premiums year on year. The provisional decision noted that*; 'When this is the case, our approach is that it's likely that the customer has been treated unfairly and we'd expect the business to compensate for this'.* When a business can't demonstrate why it's increased the price when a customer is inert, we think it's likely that they've been treated unfairly and we'd expect the business to compensate that customer.

Barclays concludes by stating that due to the level of contact from Mr B, it couldn't agree that this was a case of inertia and considered that Mr and Mrs B were well aware that they could shop around. Having carefully considered Barclays further submissions, whilst finely balanced, I'm satisfied that Mr and Mrs B didn't fully engaged with the renewal process as they thought they were receiving competitive premiums and the best policy for their needs*. 'As longstanding customers, they accepted on trust that they were receiving a favourable* *'market rate'*. I consider that this amounted to customer inertia and Mr and Mrs B's loyalty had become a barrier to effective engagement. I also conclude that if Mr and Mrs B had understood that there were cheaper comparative policies available, they would have opted for a cheaper policy. When a business can't clearly and specifically demonstrate why it's increased the price during customer inertia, we think it's likely that they've been treated unfairly, and we'd expect the business to compensate them.

This service's approach to 'inertia' was designed to respond to a potentially problematic business practice in home insurance which wasn't always leading to good outcomes and fair treatment for consumers. It had been found that consumers who'd been with the same insurer for many years often paid more for their insurance than those who shopped around. In all the circumstances, whilst I appreciate Barclays' efforts to clarify its approach, I've concluded that the provisional decision provides a fair and reasonable outcome to the matter. As we can't be sure what a customer may have paid for their insurance if they'd shopped around or engaged about the price, we then look at what fair compensation might look like to put right any unfairness. Again, I consider that the provisional decision provides a fair and reasonable compensation outcome in this respect.

My final decision

For the reasons given above, I uphold Mr and Mrs B's complaint and require Barclays Bank UK Plc to do the following: -

- to refund the difference between the price for the product quoted for in autumn 2021 of £1028, and the price they paid for their policy each year between 2015 and 2021.

- to pay interest on the difference, at the annual rate of 8% simple interest* from the date of each relevant annual payment to the date of settlement.

- *If Barclays considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr and Mrs B how much it's taken off. It should also give Mr and Mrs B a certificate showing this if they ask for one, so they can reclaim the tax from HM Revenue & Customs if appropriate.

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 16 November 2022.

Claire Jones
Ombudsman