

The complaint

Mr M complained that U K Insurance Limited (UKI) had overcharged him for his premiums over the years for his car insurance.

What happened

Mr M had been insured with UKI for about 18 years when he changed his car on the policy in 2019. But when his insurance came up for renewal in 2020 his annual premium increased to £507 which he thought was much higher than other people paid. So he chose to insure instead with a different insurer, with breakdown cover included too, for £154.

He complained to UKI that they hadn't treated him fairly by charging him significantly higher than the market premium and more than they would have charged a new customer. This was despite him having been driving for over 30 years without a claim and having a low annual mileage.

Mr M wanted UKI to agree that they hadn't treated him fairly and that they had overcharged him. He wanted them to compensate him or refund him the overcharged amounts. UKI didn't agree. They said that their premiums were correct and in line with their pricing structure. They also said that they had sent out annual renewal letters which clearly stated the premium, and latterly said that he should look around for competitive insurance. The investigator recommended that his complaint should be upheld. She thought the premiums Mr M paid after 2015 were unfairly high and that UKI should refund them, plus interest.

UKI didn't agree and so the case was passed to me to decide. I issued provisional decisions on 27 June 2022 (the first provisional decision) and on 15 September 2022 (the second provision 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.

In my second provisional decision I said as follows:

“ As the investigator explained, it's not our role to regulate insurers, only to consider whether an insurer has treated a policyholder fairly when pricing their policy. We don't stipulate any right or wrong price an insurer has to charge for providing insurance. We recognise that insurance pricing practices and insurance risk assessments have changed over time and this impacts pricing. Even if UKI's premium has gone up, and other policies with other insurers may be cheaper, that doesn't mean that UKI have done anything wrong. But UKI must treat their customers fairly in deciding what premium to charge at renewal, and so must look at how Mr M was engaging with the price at renewal each year.

We look carefully at complaints where a consumer has not spoken to the insurer after receiving their renewal quotes from the same underwriter for more than four years. Mr M had

been insured with UKI since about 2002 but he hadn't been engaging with them between about 2005 and about 2019. He said he didn't think that he needed to shop around for insurance as he'd been UKI's loyal customer for so many years.

But this changed in 2020 when he realised from talking to friends and family that he was paying more than they were. He thinks that UKI have betrayed his loyalty, and that he must have been paying higher premiums than he needed to for many years.

The investigator got UKI to send us details of the premiums Mr M paid during the policy and the annual percentage increase.

year (no.)	year (date)	premium	yearly % increase	cumulative % increase
1	2002	£138.00	0.0%	0.0%
2	2003	£98.00	-29.0%	-29.0%
3	2004	£97.00	-1.0%	-29.7%
4	2005	£188.00	93.8%	36.2%
5	2006	£186.00	-1.1%	34.8%
6	2007	£206.00	10.8%	49.3%
7	2008	£200.00	-2.9%	44.9%
8	2009	£198.00	-1.0%	43.5%
9	2010	£195.00	-1.5%	41.3%
10	2011	£232.00	19.0%	68.1%
11	2012	£190.00	-18.1%	37.7%
12	2013	£198.00	4.2%	43.5%
13	2014	£170.00	-14.1%	23.2%
14	2015	£251.00	47.6%	81.9%
15	2016	£296.00	17.9%	114.5%
16	2017	£297.00	0.3%	203.1%
17	2018	£332.00	11.8%	242.3%

The annual cost of Mr M's policy was £138.00 when it started in 2002 but was £332.00 by 2018.

UKI said as follows. This wasn't a typical case of customer inertia. Although Mr M's premiums went up in 2005 when he changed his car, they fluctuated between 2005 and 2014, and by 2014 his premium was less than it had been in 2005. So his premium didn't increase in real terms for many years. And between 2010 and 2013 they applied a discretionary discount of 10% discount to his premiums, so they were not taking advantage of Mr M's inertia. The premium increased in 2015 when affected by Mr M's then credit score, and subsequent increases were due to their view on risk. The 2019 and later premiums were due to his car change. From about 2017 they advised customers to shop around with other insurers. They confirmed that Mr M had never made any claim.

I think that UKI should have been aware that they were renewing Mr M's policy every year without any engagement from him. This was between 2005 and 2019. I do accept that his premiums went up and down between 2005 and 2014 and overall didn't change too much in real terms. But they did start to go up significantly from 2015. And so from that point UKI need to justify that further annual premium increases were fair given his lack of engagement. UKI claim that the 2015 increase was due to a change in Mr M's credit score and thereafter was due to their changed view of the risk and other factors, but I don't think that they've

shown us sufficient persuasive evidence to support that. And so I think that due to his inertia, UKI's increase in the premiums from 2015 became unfair and this has disadvantaged Mr M. This means that I think UKI should refund the difference between what he paid UKI for his insurance in 2015 and what he paid for it each year after that, until he cancelled the policy in 2020, plus interest.

My provisional decision

For the reasons I've given above, it's provisional decision that I intend to uphold this complaint and require U K Insurance Limited to :

- *Refund the difference between the price Mr M paid in 2015 and the price paid each year from then until the policy cancellation date in 2020*
- *Pay Mr M 8% simple interest per annum (less tax where applicable) on that amount from the date of each instalment. “*

Mr M didn't comment on my provisional decision. But UKI didn't agree with it. They repeated that they had sent Mr M annual renewal letters stating the premium, which also from about 2017 said that he may be able to obtain alternative insurance cheaper elsewhere. But I still think that, given that Mr M hadn't contacted them until 2019, UKI should have realised that Mr M wasn't shopping around or negotiating the price at renewal each year.

UKI also took issue with the 2020 refund end date which I proposed. They said that in 2019 Mr M's premium increased because he changed his car on the policy and that this was a clear change in risk. They've shown us that this was justified by their underwriting criteria. And so they thought that Mr M's contact with them in 2019 ended any inertia on his part. On reconsideration I agree with that. And so for that reason I change my provisional decision and treat the 2019 date as the end of the inertia period, instead of the 2020 policy cancellation date.

My provisional decision

For the reasons I've given above, it's my provisional decision that I intend to uphold this complaint and require U K Insurance Limited to :

- *Refund the difference between the price Mr M paid in 2015 and the price paid each year from then until the date in 2019 that Mr M changed his car on his policy.*
- *Pay Mr M 8% simple interest per annum (less tax where applicable) on that amount from the date of each instalment*.*

** If UKI consider that they are required by HM Revenue & Customs to deduct income tax from that interest, they should tell Mr M how much they've taken off. They should also give Mr M a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate. “*

In response to my second provisional decision, Mr M let us know that he wasn't subject to UK tax.

UKI said that they didn't think that any premium refund at all was justified. They thought that the price inertia point should start only from 2015. This was because they felt that this Service had agreed that there was no unjustified increase in premium until 2015, and that UKI's premiums before then were fair. And they still felt that they had justified their premium increase from 2015 onwards.

About the price inertia point, Mr M hadn't engaged with UKI since about 2005. We say it's an inertia case if a consumer hasn't spoken to the business about their renewal quotes for five years or more, so Mr M's inertia point was about five years after that. We think that a business should realise when a consumer isn't engaging with them.

I'd seen that Mr M's premiums went up and down between 2005 and 2014 and overall didn't change too much in real terms, but that isn't the same as saying that those premiums were fair, and it doesn't change the inertia point. As the premiums started to go up significantly from 2015, it's from that point that UKI need to justify that further annual premium increases were fair, given Mr M's lack of engagement with them for about a decade before that. I think that in deciding what premium to charge him at renewal, they should have looked at how Mr M was not engaging with the price at renewal each year.

UKI felt that they'd evidenced the premium increase from 2015 onwards. They said the 2015 increase was partly due to a change in Mr M's credit score and thereafter was due to their changed view of the risk and other factors. But I don't think that's a good enough or sufficiently supported explanation and so I'm not persuaded by it, and so I don't change my second provisional decision.

My final decision

For the reasons I've given above, it's my final decision that I uphold this complaint. I require U K Insurance Limited to :

- Refund the difference between the price Mr M paid in 2015 and the price paid each year from then until the date in 2019 that Mr M changed his car on his policy.
- Pay Mr M 8% simple interest per annum (less tax where applicable) on that amount from the date of each instalment.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 18 November 2022.



Rosslyn Scott
Ombudsman