

The complaint

Mrs K and Mr K complain about Great Lakes Insurance SE (Great Lakes) increasing the premiums on renewal of their lifetime pet insurance policy following a claim.

References to Great Lakes include their agents who administer the policy.

What happened

Mrs K and Mr K took out a lifetime pet insurance policy for their dog through Great Lakes in July 2021, with an annual premium of £381.06. They said they were told over the phone by Great Lakes that while the premium would be recalculated each year at renewal based on several factors (including the age of the dog, advances in medicine, specific breed issues and other factors) their claims history wouldn't be considered. They also said they were told they could make multiple claims in any one year, but with only one excess being applied (rather than to each individual claim). This was a key factor in their decision to take out the policy (having previously had a policy with another insurer).

During the year, Mrs K and Mr K made one claim for a diagnostic test (£78.65 after deduction of the policy excess). However, when their policy came up for renewal in July 2022, the annual premium increased to £508.94 (an increase of 33.6%). They challenged Great Lakes about the increase and were told that the claims history was now being considered when recalculating premiums (which was also contained in the renewal documents). They were also unhappy at not being told exactly how the renewal premium had been calculated. Unhappy at the significant increase in premium – given they'd been told their claims history wouldn't be a factor in future premiums – they complained to Great Lakes.

Great Lakes didn't uphold the complaint. In their final response they said premiums reflected regular reviews of data that affected the risk associated with insuring a pet, including the pet's age, breed or general pet-related illnesses, vet fees in the area. They also said that any claims made during the year may also affect the premium (depending on how many claims and the cost of those claims). They said the renewal notice made Mrs K and Mr K aware that the claims history could affect the renewal premium. Great Lakes also said Mrs K and Mr K could shop around if they were unhappy with the premium increase or consider changing the level of excess of the level of cover.

Mrs K and Mr K then complained to this service. The main part of their complaint was they were unhappy at the significant increase in premium at renewal, having only made one small claim during the year and being told the claims history wouldn't be considered when premiums were recalculated. They thought they were likely to be penalised financially for the remaining life expectancy of their dog. They wanted future policy renewals to include a discount equal to the value of any premium increase resulting from their claims history. They also wanted a refund of the additional premiums they'd paid (at renewal).

Our investigator upheld the complaint, concluding Mrs K and Mr K hadn't been told their premium was likely to increase significantly. While they were told over the phone in July 2021 the claims history wasn't a rating factor in setting premiums, the investigator thought this

wasn't mis-advice as Great Lakes didn't begin considering previous claims as a rating factor until July 2022. The investigator also thought it was for Great Lakes to determine how they set premiums for their policies. Mrs K and Mr K were told the increased premium level before renewal of the policy in July 2022 and previous claims were a factor. If Mrs K and Mr K were unhappy at the increased level of premium, they could have chosen not to renew the policy.

The underwriting data provided by Great Lakes showed the premium had been calculated in line with their method of calculating premiums, so the premium was correct. The premium increased by 33.6% and Great Lakes said this was mainly due to the age of the dog. The investigator thought Great Lakes should have made Mrs K and Mr K aware of this when they took out the policy. But as Mrs K and Mr K had opted for a more comprehensive policy and hadn't cancelled the policy, the investigator didn't think they wouldn't have taken out the policy had they been aware of the potential premium increase. But the investigator thought Great Lakes should pay Mrs K and Mr K £100 compensation for not informing them their premium would increase significantly.

Mrs K and Mr K disagreed with the investigator's conclusions and asked that an ombudsman review the complaint. In disagreeing, they were concerned at the potential future increases in premiums, and that because pre-existing conditions were usually excluded from pet insurance policies, then switching to another insurer would not be a risk-free option.

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.

My role here is to decide whether Great Lakes has acted fairly towards Mrs K and Mr K.

The main issue in Mrs K and Mr K's complaint is the significant increase in premium at renewal, having only made one small claim during the year and being told the claims history wouldn't be considered when premiums were recalculated. Great Lakes say premiums reflect regular reviews of data affecting the risk associated with insuring a pet, including several factors. They also say the renewal notice made Mrs K and Mr K aware that the claims history could affect the renewal premium. They also say the renewal premium was calculated in accordance with their pricing approach. I'll consider each element in turn, together with the views, evidence and information put forward by Mrs K and Mr K and by Great Lakes.

I've first considered the point about Mrs K and Mr K being told (when they took out their policy) the claims history wouldn't be considered – but it was subsequently at the time of the renewal of the policy. In their final response, Great Lakes refer to their renewal invitation included information making Mrs K and Mr K aware of the claims history could affect the renewal premium. The wording (under a heading of "*Why do prices change?*") is as follows:

"when we work out your price we look at lots of factors. Things like your pet's age, more sophisticated vet treatments becoming available, and your claims history can significantly affect your renewal premium."

I've also noted what Great Lakes said (in their reply to Mrs K and Mr K when they challenged the final response) about their change of approach to setting premiums (to include the claims history of policyholders) with effect from July 2022. This indicates at the time Mrs K and Mr K took out their policy (July 2021) Great Lakes' approach to setting premiums was they didn't take account of individual claims history. But they subsequently changed their policy to do so – they say because of customer feedback (from those who didn't tend to make claims) about having to 'pay for other people's claims'. Together with other factors, this led to Great Lakes changing their approach to setting renewal premiums.

Having considered this, it's a commercial decision by Great Lakes about how they set renewal premiums and what factors they take account of (and the weighting/loading of those factors). As such, it isn't something I can conclude is unreasonable. Insurers are entitled to decide how much to charge for the cover they provide. It's up to them how much they increase their premiums by and it's common for increases to vary from year to year. I can't tell a business what it should charge. And taking account of claims history was contained in the renewal documentation as set out above. But it didn't explicitly say it was a change to the previous approach.

I've then considered the calculation of the renewal premium, given the significant (33.6%) increase compared to the premium when the policy was taken out.

Great Lakes have supplied the detailed rating factors applied to the calculation of Mrs K and Mr K's renewal premium. While this is commercially sensitive, it indicates the main factors underpinning the increase in premium were the age of the dog and location (postcode). It also indicates (and Great Lakes have confirmed) that while the individual claims history for Mrs K and Mr K was considered as part of the premium calculation, the claims history was only for the year after the policy was taken out (not the claims history before the policy was taken out). And the low value of the one claim made during the year had a minimal impact (if any) on the calculation of the renewal premium.

Taking this into account, I've concluded Great Lakes have calculated the renewal premium in accordance with their approach to setting renewal premiums. So, I've concluded they haven't acted unfairly or unreasonably towards Mrs K and Mr K.

While I've reached this conclusion, I've also considered the points raised by Mrs K and Mr K when responding to our investigator's view. On the point about potential future premium increases, this isn't something I can consider as part of this complaint, which is about the increase in renewal premium compared to the premium when the policy was taken out. It would be for Great Lakes to issue renewal documents for the policy in future years (Mrs K and Mr K having renewed the policy in July 2022) including the level of any premium. As with most pet insurance policies, premiums tend to increase as the per insured gets older (and this is likely to increase the risk of illness and consequently, the number and value of claims). Each policy renewal is an invitation and it's for the policyholder (Mrs K and Mr K) to decide whether they are content to renew the policy, based on the terms and premium.

I also appreciate the point about pre-existing conditions usually being excluded from cover where a policyholder switches to another insurer. But this is common with pet insurance policies, and it's for Mrs K and Mr K to consider this factor when deciding whether to renew their policy or look for cover elsewhere.

Coming back to the main issue of the complaint, while I think Great lakes haven't acted unreasonably in calculating the renewal premium and taking account of claims history was contained in the renewal documentation, I have considered the point that it didn't explicitly say there could be a change to the previous approach

The policy terms do allow Great Lakes to change the premium at renewal. In some circumstances it might not be fair for a business to make changes to a policy like this if they fundamentally change the nature of the cover on offer. I don't think that's the same as what happened here. Great Lakes has changed the way it calculates the policy premium and that does differ from the position when Mrs K and Mr K took the policy out. However, claims were always taken into account when calculating premiums. The difference is that previously they were pooled across customers with similar characteristics whereas now customers who have more claims are charged more if claims in the last 12 months indicate an increased risk of future claims. I don't think that represents a fundamental change to the lifetime cover

offered. So while I appreciate that the renewal quote it offered was a significant increase on I don't think Great Lakes has done anything wrong here.

But as the seller of the policy Great Lakes also had a responsibility to provide clear, fair and not misleading information when the policy was taken out and ensure its customers had *"appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed"*.

I don't think Great Lakes did provide Mrs K and Mr K with the information they needed. They were not told Great Lakes would look at any claims they made. While that reflected the pricing position at the time, Great Lakes didn't provide any caveat to that or give any indication it might change in future. As Mrs K and Mr K were taking out lifetime cover I think they should have been this so they could make an informed choice as to whether this was the right policy for them.

I've gone on to think about how that affected their decision and whether they would have acted differently if they'd been given better information.

Mrs K and Mr K wanted to have the extra security of lifetime cover for their pet and they thought this policy was suitable. If they had looked for a similar policy elsewhere, it's likely any such policy would have taken claims into account when calculating premiums. And the premiums would likely have gone up in future. I don't think they would have looked for a different policy and even if they had, they would likely have ended up in the same position.

I think this caused them some confusion and Great Lakes could have communicated better. The price increase will have come as a shock when they had been told individual claims wouldn't impact the premium. They might reasonably have thought there would be some increase given the dog's increasing age, but the size of the increase would have been unexpected and would have caused some distress. In recognition of the impact this had on Mrs K and Mr K, I think Great Lakes should pay £100 compensation for distress and inconvenience.

My final decision

For the reasons set out above, my final decision is that I uphold Mrs K and Mr K's complaint in part. I require Great Lakes Insurance SE to:

- Pay Mrs K and Mr K £100 in compensation for distress and inconvenience.

Great Lakes Insurance SE must pay the compensation within 28 days of the date on which we tell them Mrs K and Mr K accept my final decision. If they pay later than this, they must also pay interest on the compensation from the date of my final decision to the date of payment at 8% a year simple.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K and Mr K to accept or reject my decision before 13 July 2023.

Paul King
Ombudsman