

The complaint

Mr E complains that St Andrew's Insurance Plc (SA) increased his buildings insurance premium every year when it could have supplied him with cheaper cover.

What happened

Mr E took out buildings insurance as a condition of his mortgage in 1996. His policy was taken over by SA in 2001 and it automatically renewed each year until Mr E cancelled it in 2020.

Mr E had a change in his personal circumstances around this time and examined his financial outgoings carefully. He found he was able to find similar cover elsewhere for much less than he was already paying. When he queried this with SA., it offered to swap him to a similar policy it already offered at a cheaper price.

Mr E is unhappy about being overcharged for a long period of time. He asks for compensation for the amount he feels he has paid over the market rate he thinks he should have been charged.

SA looked into his complaint and said that it sent Mr E an invite to renew every year and that he didn't have to renew with it. SA also said that the renewal letter offered Mr E the opportunity to contact it and discuss options, such as changing to a different product or obtain a discount. It says Mr E didn't contact him to discuss any of these options. SA said it had calculated the premium correctly and wouldn't provide a refund or compensation. It pointed out that Mr E's premiums were in line with how it priced its policies, and sometimes below, so the premium was in line with how it viewed the risk.

Mr E brought his complaint to this service. Our investigator looked into his complaint and upheld it. She thought SA had charged Mr E more than it ought to have done and agreed that SA should refund some of the premiums. She thought SA should've noticed Mr E wasn't engaging with it at renewal indicating that he was an 'inert' customer.

She recommended that it refund the difference between the 2015-18 premium he paid and SA's "target premium", plus interest on the difference.

Mr E agreed with our investigator's view, but SA did not. SA told this service that Mr E had said he didn't shop around because he was too busy, until his change of circumstances in 2020. SA said this meant that Mr E had engaged with the renewal process.

It asked for the view to be reviewed by an ombudsman, so it has been passed to me to make a final decision.

I issued a provisional decision to give both parties the opportunity to consider things further. I thought it was fair to ask SA to refund Mr E for the overpayments he'd made on his premiums dating back to 2007.

I haven't included the text of my provisional decision here because it focused on the method

of calculation of the refund I proposed. This information has since changed, and I've included the revised version below.

Responses to my provisional decision

SA responded and confirmed it agreed with the principle of my provisional decision. But it also provided some further information about the way It had calculated Mr E's policy premiums, which has slightly changed my approach to the calculation. Mr E has agreed with SA's revised information.

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'm upholding this complaint, and I'll explain why.

Our role isn't to tell a business what it should charge for the insurance it offers. To do so would be interfering with their commercial judgement. But we can check to make sure a business has treated customers fairly with the insurance and price they've offered. We want to make sure someone hasn't been treated differently because of how they have or haven't engaged with the cost of their insurance over time.

When a consumer chooses not to shop around for a policy each year, even when their policy has significantly increased in price, it is commonly referred to as 'consumer inertia'. In Mr E's case, I think the evidence available shows that this is likely to have happened. SA should have made sure it was treating him fairly by not increasing the premium simply because Mr E wasn't engaging with it.

SA has said Mr E didn't shop around because he was too busy, but it seems to me that it's not fair of SA to charge him a higher premium simply because he was time-poor.

It seems to me that Mr E was inert and not engaged on the price he was being charged by SA. And businesses should be able to demonstrate that a consumer hasn't been treated differently because of their lack of engagement.

From the evidence provided, I'm not persuaded SA has treated Mr E fairly throughout the lifetime of his policy. I say this as I've not been provided with anything to demonstrate why the price has changed as it has during this time.

In Mr E's case, I can't consider his complaint against SA before 2001, because SA only became his insurer in that year.

When a consumer hasn't been engaged with their insurer at renewal for a number of years, we think it's reasonable to say they were inert. I've looked at Mr E's premiums from the time SA took over the underwriting of his policy to see whether I think he has lost out as a result of not engaging.

Having done so, I think the pricing of Mr E's policy from 2001-2006 shows that the premium increases were fair and reasonable.

But I've looked carefully at Mr E's pricing journey from 2007 and asked SA to explain why the price continued to increase as it did. It hasn't been able to explain these increases satisfactorily and in the absence of this, I don't think it's fair to say he was being treated fairly.

I've looked at what Mr E paid each year from 2007 to when he cancelled his policy in 2020. During that time, SA used different methods to calculate the premium it charged Mr E and I have divided up this period into sections, 2007-2014, 2015-18 and 2019-2020, to help me to understand what Mr E was charged.

What I'm not able to do is estimate how much Mr E might have paid if he'd have engaged with the insurance marketplace and obtained a new quote each year. But what I can do is look at what Mr E paid SA at each renewal and examine how that price has changed each year.

Prices have changed over time in insurance with insurance premium tax (IPT) and the changes to this being passed on as its increased. These will be relevant to Mr E with some significant changes over the time he held his policy. But these alone do not explain why Mr E's price increased as it did between 2007 and 2014.

Mr E wasn't engaging with his renewal and this was evident by 2007. SA haven't been able to demonstrate from this point that the price increases were reflective of a change in risk or anything specific to Mr E. So I'm not persuaded they've treated him fairly and Mr E has lost out as a result of his lack of engagement.

For 2015-18 and 2019-20, SA changed the way it worked out whether consumer premiums were being charged fairly and it used a "target premium" figure mentioned above, which is an internal benchmark SA use to decide whether its customers have been charged a fair price. It means the same set parameters are applied to all customers and its applications means Mr E wasn't treated differently because of his lack of engagement.

I can see from SA's evidence that Mr E was charged above this target premium for 2017, 2018 and 2019, So I require SA to refund his overpayment for those years.

My final decision

For the reasons set out above, my final decision is that I uphold this complaint. I direct Saint Andrews Insurance Plc to:

- Refund to Mr E the difference between the premiums he paid each year from 2007-2014 inclusive, and the premium he paid for 2006, with an adjustment for each year to allow for inflation and IPT changes.
- Refund to Mr E the difference between the premiums he paid and the target premium calculated by SA for the 2017, 2018 and 2019 policy years.
- Pay Mr E 8% simple interest* per annum on these amounts from the date the premiums were due to the date the refund is paid.

*If St Andrews Insurance Plc considers that it's required by HM Revenue & Customs to withhold income tax from that interest, it should tell Mr E how much it's taken off. It should also give Mr E a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 5 January 2023.

Richard Sowden
Ombudsman