DRN-3786756

The complaint

Mr B is unhappy that Society of Lloyd's has increased the cost of his income protection policy.

What happened

Mr B has had a 'Homeowner' income protection policy with SOL since 2016. When Mr B took out the policy, his premium was £58.67 per month.

The cost of the policy has increased during the lifetime of the policy:

- In May 2017 there was an increase in Insurance Premium Tax so the cost of the policy increased to £59.74 from June 2017
- In May 2018, at the annual review of the policy, the price remained the same at £59.74
- In May 2019, at the annual review of the policy, the price remained the same at £59.74
- In December 2019 SOL the cost of the policy increased from £59.74 to £68.70 (effective from January 2020)
- In July 2020 the cost of the policy increased from £68.70 to £75.57 (effective from August 2020)
- In January 2021 the cost of the policy increased from £75.57 to £132.25 (effective from March 2021)
- Following Mr B's complaint to our service, in July 2021, the cost of the policy increased from £132.25 to £204.00 (effective from August 2021).

So, between December 2019 and January 2021, the cost of the policy increased three times from £59.74 to £132.25 per month.

Mr B complained to SOL, following the increase in price in January 2021. In summary he says it wasn't made clear to him that the policy could increase in price so much and the price had significantly increased without any justification. SOL said that the amendment had been applied fairly to all policyholders and was in line with the policy terms and conditions.

Unhappy, Mr B referred his complaint to the Financial Ombudsman Service. He said that in the past 12 months his premium had more than doubled from £68.70 to £132.25. Whilst he acknowledged the premiums could change, he said the terms didn't make clear that those changes were unlimited. He said he accepted the first increase, but the latest increase was unacceptable and sharp practice.

Our investigator looked into what had happened and didn't uphold the complaint. He thought the policy terms were clear, and that SOL was entitled to increase the price of the policy.

Mr B didn't agree and asked an ombudsman to review the complaint. In summary, he says that if he'd realised the premiums could increase by over 200% or that they were unlimited he wouldn't have taken out the policy. And, he pointed out that the increases have never been fully explained to him or justified with a breakdown of cost. Mr B also said that he feels SOL have exploited the situation because there was no alternative policy available on the market that he could switch to in January 2021.

In August 2022 I issued my provisional decision. I said:

> <u>The relevant rules and industry guidelines</u>
>
> The Principles for Businesses ('Principles') are set out in the Financial Conduct Authority (FCA) Handbook and SOL is obliged to follow these.
>
> Principle 6 says a firm must pay due regard to the interests of its customers and treat them fairly.
>
> The Regulatory Guide, published by the FCA, entitled: 'The Responsibilities of Providers and Distributors for the Fair Treatment of Customers' (RPPD) includes the Regulator's guidance on what the combination of Principles and the detailed rules require providers and distributors of financial services in certain circumstances to treat customers fairly. The RPPD makes clear that firms should consider the impact of their actions, or inactions, on the customer throughout the life cycle of the service being provided.
>
> I've also considered what I consider having been good industry practice at the time of the claim. That's for insurers – and their agents – to make clear what the key benefits, and significant limitations, of cover are. And, they also need to ensure that consumers are given clear information about what changes can be made to the policy during its lifetime.
>
> <u>The policy terms and conditions</u>
>
> The Insurance Product Information Document (IPID) says on page two:
>
> Cover commences on the date shown in your schedule and will continue each month on a rolling basis.
>
> The policy terms and conditions say on page three:
>
>> The premium will alter if you alter your monthly benefit and/or cover type and we can alter your premium at any time provided we let you know 30 days in advance.
>
> And:
>
>> Your policy is designed to adapt to your requirements and provide the cover you want over many years but it is important to note that we can alter the terms of the policy, the cover options available and the premiums applicable if

> we feel it is appropriate. If we feel any such change is necessary we will advise you what is to change, why it is to change and we will do this as quickly as possible but in any event at least 30 days before the change applies.

Have SOL treated Mr B fairly?

I'm upholding this complaint and directing SOL to pay Mr B £500 compensation because:

- Mr B took out a policy to protect him in the event of unemployment. The core feature of the product is that it's designed to offer Mr B financial stability in the event he was unable to work.

- I don't think the policy terms and conditions made it clear enough that the premiums could increase in the way they did and at short notice. Although the policy was described as 'monthly renewable' I don't think that the impact of this term was clear to Mr B. The policy terms didn't clearly explain that this meant the premium could increase at any time, or more than once within a short space of time. I think this was a significant limitation of the policy that ought to have been more clearly highlighted in the policy documents. I don't think the way this information was presented was prominent or transparent. Mr B would have needed to cross refer between the IPID and different sections of the policy to work out that his policy could be subject to premium increases at any time and that SOL could make unlimited increases in the price.

- At the time Mr B bought this policy he would have been able to take out alternative cover at a similar price. Those similar policies would have only been subject to increases in price once a year. I think that such a policy is likely to have been more attractive to Mr B as it would have offered greater security and stability.

- Mr B's monthly premiums increased from £75.57 to £132.25 within less than 12 months. That's an increase of around 75%. SOL hasn't provided me with any information to explain why the price increased, or why it increased so much. I'd expect SOL to be able to demonstrate that any increase in price was fair and reasonable. For example, that the price increased because of an increased risk. SOL hasn't provided any information to demonstrate that's what happened in this case. So, even if all consumers experienced a similar increase in premiums, I'm not persuaded this was fair or reasonable based on the evidence I've been provided with.

- I think that the lack of clarity in the terms about premium increases has placed Mr B at a disadvantage and he has lost out as a result. SOL increased the premiums significantly after March 2020 when Covid-19 had a significant impact on the market. This means it was more difficult, and expensive, to take out a new policy. And, Mr B is unlikely to have been able to take out comparable cover, due to the impact of Covid-19.

- Mr B didn't claim on the policy and he continues to benefit from cover as the policy remains in force. Therefore, I think that he has experienced a loss of expectation. That's because he bought a product which was designed to offer financial stability during difficult times. But it wasn't clear that this particular policy could be subject to regular and significant increases in premiums. I think it caused Mr B distress when he realised this, particularly following the impact of Covid-19 which was a time of unprecedented uncertainty in relation to job security. I think SOL needs to pay £500 to Mr B to put things right.

- Mr B should note that my provisional decision is based on the current available evidence. SOL hasn't provided the detailed underwriting information I've asked for. But if they do provide more information in support of their position, I may reach a different outcome to the one I've outlined above.

Putting things right

I'm intending to uphold this complaint and direct SOL to put things right by paying Mr B £500 for the loss of expectation together with the associated distress and inconvenience caused.

Mr B didn't respond to my provisional decision. SOL made a number of further representations. In summary they:

- Provided underwriting data which they said demonstrated the increase in risk to the insurer
- Set out in detail the increases in prices between the policy inception in 2016 and January 2021
- Explained that policyholders were notified of an exceptional number of claims which outweighed the premiums received and the scheme wasn't sustainable without increases to the premiums. They provided some underwriting data which they said supported this.
- Said that Mr B's complaint was about the most recent increase being unacceptable – historically (between 2016 and 2019) the premiums had increased by £10. They also maintained it wasn't fair for me to conclude the policy had been subject to regular and significant increases in premium
- Said that this was a monthly rolling contract which was mentioned in the Insurance Product Information Document (IPID) and subject to an annual review.

So, I now need to make a 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.

I remain persuaded that it is fair and reasonable to uphold Mr B's complaint. I'll explain why.

<u>The increase in risk to SOL</u>

In my provisional decision I set out the responsibilities of the insurer with reference to the relevant rules and industry guidelines. I also referred to RPPD which makes clear that firms should consider the impact of their actions, or inactions, on the customer throughout the life cycle of the service being provided.

I've re-considered the information provided by both parties in this complaint and have reached the following conclusions:

- In their letters to policyholders SOL said the performance of the Homeowner account was regularly reviewed and if there was a negative result this meant the insurer had sustained losses. They said the Homeowner scheme had sustained losses and the insurer had no alternative but to increase prices. That's reflected within the underwriting data I've seen but it doesn't mean I accept everything SOL has told us about the scheme and the increase in the price of the policy. From the information I've seen, the pressure on the costs of supporting the scheme wasn't directly related to the risks posed by the pandemic.

- Bearing in mind the principles I've outlined in relation to RPPD it's disappointing to note how the performance of the scheme was addressed and the point at which SOL decided to take action to address it.

- In particular SOL has acknowledged the historic performance of the scheme and its lack of preparedness of the scheme for a systemic event. In reaching my decision I've taken into account that the failure to address the price earlier meant Mr B had the benefit of cheaper cover. But it seems most likely the implications of SOL's inaction were compounded by the impact of Covid-19 which led to significant increases in premiums over a short period of time for Mr B.

<u>Has SOL treated Mr B fairly?</u>

In any event, even if I accepted SOL arguments on the above points, I still think it's fair and reasonable to uphold Mr B's complaint because:

- Mr B did complain about the increase in premium in January 2021 when the cost rose from £75.57 to £132.25. But, that also has to be considered in the context that historically there had been limited, annual increases in the price of the policy since inception. I think that's relevant to Mr B's complaint as the increase he specifically complained about followed other recent increases in the price.

- I'm not persuaded that the policy terms and conditions made it clear that the policy premiums could increase at any time and an unlimited number of times.

- I don't think the IPID adequately highlighted what the impact of a 'monthly renewable' policy was. I don't think Mr B understood the implications of this term and how it could affect his policy. I don't think it was presented in a way that was clear, fair and not misleading.

- Mr B would have had to read the policy terms in detail to understand when and how SOL could makes changes to the premiums. Although the policy refers to SOL being able to make changes with 30 days notice it doesn't go on to explain that those changes could be unlimited both in terms of the size of the increase and the frequency with which they could be made.

- I also note that SOL refers to the policy as annually reviewable – that's also reflected within the policy documentation which was sent to Mr B throughout the lifetime of the policy. I think that's likely to have further detracted from the implications of holding a monthly renewable policy.

- I remain of the view that this was a significant limitation in cover which ought to have been more clearly highlighted to Mr B in the policy documentation. This is a policy which is designed to offer security and stability during times of uncertainty. Instead, Mr B faced significant and unexpected increases in the price of the policy during worrying and unstable times.

- I think that caused him distress and inconvenience at a time when he was in a vulnerable position. I say that because, as I outlined in my provisional decision, Mr B was unable to move to another provider following the impact of Covid-19, which had a significant impact on the market. I think had he been aware of the limitations of the policy he'd have most likely taken out alternative cover elsewhere. So, he was left in a vulnerable position because he had to pay a significantly increased premium or cancel at a time of substantial instability in terms of the employment market.

- SOL says, in summary, that I unfairly concluded in my provisional decision that there were regular and significant increases in premium, particularly as Mr B had only complained about the latest increase. But in his complaint to our service Mr B referred to the increases in his policy over the 12 months prior to his complaint. I've referred to the historic increases in price as they are relevant background to the outcome of this complaint when deciding what is fair and reasonable. And, in any event, it's for me to decide what evidence is relevant to my decision, bearing in mind the Financial Ombudsman Service's inquisitorial remit.

Putting things right

I direct SOL to put things right by paying Mr B £500 for the loss of expectation together with the associated distress and inconvenience caused.

My final decision

I'm upholding Mr B's complaint and direct Society of Lloyd's to put things right in the way I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 16 January 2023.

Anna Wilshaw
Ombudsman