DRN-3798974

The complaint

Mr B and Miss K are unhappy Covea Insurance plc didn't renew their pet insurance policy.

What happened

Mr B and Miss K took out pet insurance in 2018 through a business which Covea is responsible for (all references to Covea include its agents). The policy covered their dog and was taken out online. During the application process Mr B called Covea to query the cover it was offering.

Mr B and Miss K renewed the policy in subsequent years but in January 2022 Covea told them it wouldn't be offering renewal as it had decided to withdraw from the market. It advised them to seek cover elsewhere. Mr B and Miss K were unhappy as they believed they'd purchased lifetime cover for their dog which would continue for as long as they continued to pay the premiums. And, as their dog now had a pre-existing condition, this was unlikely to be covered by any alternative policy they now took out. Covea said it didn't have to offer a renewal and could cancel at any time with 14 days notice; in this case it had tried to give a minimum of two months notice to allow Mr B and Miss K time to find alternative cover.

Our investigator accepted Covea was entitled to stop offering cover. But she noted an Insurance Product Information Document (IPID) described the policy as a "*lifetime product*". She thought it was misleading to suggest the policy offered lifetime cover when that wasn't the case. And having listened to the call Mr B made to Covea during the sales process she was satisfied he'd been told their dog would continue to be covered as long as Mr B and Miss K renewed their policy. She thought if they'd been correctly informed that ongoing cover was conditional on Covea offering renewal it's likely they'd have sought cover with an alternative provider which did offer lifetime cover. And they'd then have ongoing cover for their dog's pre-existing condition.

In order to put things right she thought Covea should pay Mr B and Miss K £10,000 to recognise the future cost of that treatment (and reimburse any costs they'd already paid from the date the policy finished until that payment was made). And she said Covea should pay £300 to recognise the distress and inconvenience it had caused them.

Covea didn't agree. In summary it said:

- This was an annual policy and didn't provide any guarantee of cover for longer than the period of insurance. That was common to other policies within the insurance sector described as '*lifetime'* cover and Mr B and Miss K wouldn't have been able to find an alternative policy that would have covered their dog for its lifetime.

- The annual nature of the policy was clearly set out in the documentation provided to Mr B and Miss K and there was nothing to suggest otherwise elsewhere in the sales journey. Ongoing cover was only provided if it offered (and a consumer accepted) renewal terms. During the phone call between Mr B and the adviser it was correctly explained this was a lifetime time policy and their dog would only continue to be covered if they renewed.

- It reiterated why the decision not to offer renewal had been taken. And, as it wasn't able to offer renewal terms, it couldn't be assumed Mr B and Miss K would have accepted any terms that were offered. Any renewal would likely have been at significantly increased cost due to the overall performance of these policies (which is what led to the decision to withdraw cover). And Mr B and Miss K had already expressed concern about the high cost of the policy premiums.

- It didn't agree any payment should be made to Mr B and Miss K. But it also disagreed with how that amount had been calculated. It said that was based on assumptions, including about possible treatment plans and how long their dog was likely to live. If those assumptions turned out to be incorrect they would financially gain from the payment which went against basic principles of insurance.

- It also said they'd only have been able to claim for treatment covered by their policy and so any payment should take into account exclusions and limitations that might apply. And it queried how an allowance for premiums that would have been paid had been calculated given the cost of this policy would have gone up significantly if renewal had been offered. It thought Mr B and Miss K should only be reimbursed for a loss they'd actually incurred.

Mr B and Miss K didn't agree either. They thought the settlement figure should be significantly higher. They highlighted previous arguments they'd made in support of that position and provided some additional information. So I need to reach 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.

Standard pet insurance policies usually won't cover any medical conditions a pet had or had received treatment for when the policy was taken out or renewed. So ongoing or recurring medical conditions won't be covered. But some pet insurance policies will continue to cover any medical conditions claimed for in previous years, provided the policy is renewed each year.

These are sometimes referred to as lifetime policies, as ongoing or recurring conditions will continue to be covered for the lifetime of the pet, if premiums carry on being paid. And if an insurer decides to stop offering cover we wouldn't generally say it's fair existing consumers should be left with no cover for a pre-existing condition their pet might have developed and which would otherwise have been covered by the lifetime policy. That's because the policy will normally have been marketed to a consumer as a product which will continue to provide cover for as long as a consumer continues to pay the premiums.

Covea says this policy didn't provide any guarantee of cover for longer than the period of insurance. It's also explained why it could no longer offer this product. And the policy document says:

"*This is an annual policy which means that each policy year you can claim for the cost of treatments that are covered by this policy until the veterinary fee limit is reached. If we offer and you accept our renewal invitation, your veterinary fee limit will be reinstated and covered treatment payments can continue to be paid for a further period of insurance.*"

Covea hasn't provided details of information that Mr B and Miss K would have seen as part of the sale of this policy. But I know the information normally provided when these policies were sold included statements such as "*The policy is for a 12 month period – future periods of insurance cannot be guaranteed*".

I've also looked at the IPID information our investigator referred to. However, it's not clear to me this was information Mr B and Miss K saw as part of their initial sales journey. The IPID containing that wording is from after they took out their policy. And an earlier version which I think would have been in force at the point of sale doesn't contain that wording. Taken in isolation I think the written information Covea provided as part of the sales journey did explain ongoing cover was subject to a decision to offer renewal which wasn't guaranteed.

But that wasn't the only information Mr B and Miss K had. During the sales process Mr B called Covea to query the nature of the cover it was offering. In that call the adviser confirmed this was a lifetime policy and so any condition their dog had would be covered in the following policy years. Mr B queried if that meant there would be cover "*as long as we maintain the insurance with yourselves*". In response the adviser said "*as long as you renew then we can cover any conditions your pet had in the first year, yeah*". And she went on to draw a distinction between lifetime cover like this and 12 month policies which she described as "*value*" policies.

Covea believes the adviser correctly explained cover would only continue to be provided if Mr B and Miss K renewed. But what the adviser didn't say was that cover was subject to Covea offering renewal. A distinction was also drawn between this product and 12 month "*value*" policies. So Mr B and Miss K would reasonably have thought this was a lifetime policy which would continue to provide cover for as long as they paid the premiums. And they'd specifically rung to query the nature of cover they were taking out. I think they would have reasonably placed more weight on the assurances given during the call than on the written information about the policy.

So I think there has been a failing by Covea here. I think it did make a commitment to Mr B and Miss K that cover would be provided as long as they continued to pay the premiums for the policy. It may have done that in error but if it hadn't done so Mr B and Miss K told us they would have looked elsewhere for cover that did provide that. And given they specifically called Covea to query this point I think that's likely.

Covea says they wouldn't have been able to find such a policy but I don't agree. I appreciate all lifetime policies are annually renewable but other insurers do market them on the basis that cover will continue as long as a consumer renews. They use wording such as "*A lifetime policy will cover your pet's injuries and illnesses for life, as long as you keep renewing the policy every year*". I think, but for the failing by Covea, Mr B and Miss K would have such cover in place. That means Covea does need to take action to put things right.

Our investigator recommended it should pay Mr B and Miss K £10,000 to recognise the ongoing costs they were likely to incur in treating their dog's pre-existing condition for the remainder of its lifetime. I can see that's based on a life expectancy of around 12 years which is in line with the average for this type of dog. And as the dog is currently five years old that would mean anticipated treatment for a further seven years.

In trying to calculate the costs of that treatment I think it's reasonable to take into account the costs paid under the policy to date which total around £5,700 over the last three years. Doing so means that calculation is based on what Mr B and Miss K would have been eligible to claim under the policy which, as Covea has pointed out, is subject to its exclusions and limitations. But I think it's right to anticipate those costs would likely increase going forward (Mr B and Miss K have drawn attention to some recent increases in the sums they will need to pay).

I also think it's reasonable to take into account the increased premiums that would have been paid for this policy if it had remained in force. Covea says Mr B and Miss K might have decided not to renew given they'd already expressed concern about the high cost of premiums. But having concerns about the cost of the policy isn't the same as deciding against taking out the cover.

However, I do agree with Covea that the cost would have likely significantly increased over time to reflect factors including the age of Mr B and Miss K's dog and their claim history. And it is possible that it would ultimately have become unaffordable for them. I also recognise that Mr B and Miss K will be receiving compensation as a lump sum. They've said that will need to be accessible for treatment costs and I agree. But I think it's nevertheless fair to assume some investment growth on this amount.

Covea say any payment should only reflect a loss Mr B and Miss K actually incurred. However, our rules specifically allow us to award for "*financial loss (including consequential or prospective loss)*". And in this case, while I recognise there are challenges in calculating the prospective loss to Mr B and Miss K, that isn't a reason not to do it. However, I do think it's reasonable to limit that to the pre-existing condition their dog currently has rather than any others it might develop in future (even if they are associated with this one). It's clear Mr B and Miss K will incur costs in relation to the existing condition; that isn't the case in relation to a condition their dog doesn't yet have.

I don't agree providing compensation in this way goes against the principles of insurance. The issue in this case is what Covea needs to do to put right a failing on its part. Our normal approach is that a business should, as far as possible, put the consumer back in the position they would have been in but for that failing. That's what the payment in this case seeks to do.

I accept there are assumptions built into this calculation (for example around the expected lifespan of Mr B and Miss K's dog and what further treatment might be necessary). But I think that's unavoidable in this situation. The alternative would be to require Covea to continue to cover the pre-existing condition which would tie the two parties into an ongoing relationship that neither of them wants. It would also mean Mr B and Miss K had to continue making claims, and Covea had to continue administering them, for potentially many years in respect of a policy that no longer existed and for which premiums would no longer be paid or calculated. I accept making a lump sum payment has its own challenges but I think it's fairer to both sides to draw a line under things with such a payment.

I recognise it's nevertheless difficult to come to an exact figure on what a prospective loss to Mr B and Miss K will be. But I have to reach a judgement on what I think is fair and reasonable in all of the circumstances. Having taken into account the factors I've outlined and having considered the evidence from both sides I think the proposed compensation of £10,000 is fair.

Putting things right

- Covea will need to pay Mr B and Miss K a lump sum of £10,000 to compensate them for the future costs they're likely to incur for their dog's treatment.

- It will also need to cover costs they've paid to date for their dog's pre-existing condition that would have been covered by the policy if it had continued from the date the policy ended until the date the lump sum compensation is paid (subject to Mr B and Miss K providing proof of having incurred these costs);

- And it will need to pay interest on those costs at the rate of 8% simple from the date Mr B and Miss K paid them until they are reimbursed by Covea.

I also think Mr B and Miss K have been caused avoidable distress and inconvenience by what got Covea got wrong here. So it will need to pay £300 to recognise the impact of that on them.

My final decision

I've decided to uphold this complaint. Covea Insurance plc will need to put things right by doing what I've said in this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Miss K to accept or reject my decision before 9 January 2023.

James Park
Ombudsman