Financial Ombudsman Service

The complaint

Miss O and Mr T complain that St Andrew’s Insurance Plc has treated them unfairly when calculating the cost of their buildings insurance policy over a number of years.

What happened

Miss O and Mr T purchased their home insurance when mortgaging their property. The premium was added to the mortgage and collected with the monthly mortgage payment and Miss O and Mr T say because of this, they failed to notice the cost of their policy increasing overtime.

In 2007, the cost of the insurance was £444.80. In 2018 Miss O and Mr T realised this had increased to £1154.01 for the year. They felt this was too high and shopped around online. They found similar cover for considerably less with a different provider.

In 2021 after shopping around again at renewal, Miss T and Mr O found that St Andrews could offer them a policy for less than £400 for the year. They felt this indicated that St Andrews had treated them unfairly in the past and they made a complaint, asking that it refund any overpayments made when the price was increased unfairly.

Our investigator looked at Miss O and Mr T’s complaint. She explained that she felt it was fair to say Miss O and Mr T had been inert on the cost of their insurance – they hadn’t engaged directly with St Andrews on the policy premium during the time they had it. This was because of the policy being attached to the mortgage and Miss O and Mr T said it made it more difficult for them to realise it was increasing in price. Our investigator felt their lack of engagement meant they were vulnerable to being treated unfairly.

She looked at how the price of the policy had increased from 2007 when St Andrews was able to provide details of the price from. She felt the increases until 2012 were reflective of it recouping a new business discount applied when the policy was taken out. After this point, she didn’t think St Andrews had been able to explain why the price had increased as it did until 2018 when it was cancelled. So she asked St Andrews to refund the difference in what Miss O and Mr T paid from 2012 onwards in excess of this price.

St Andrews responded and accepted that there were times when it wasn’t able to explain why the price increased as it had. It provided information about it’s pricing model which showed there was years when the increases to Miss T and Mr O’s policy were in excess of what they feel it should have been. As a result, St Andrews offered a refund of £427.08 plus 8% interest to Miss O and Mr T. It felt this fairly addressed the times when the premium increases exceeded what the pricing model indicated this should have been. This also reflected a refund of anything paid in excess of the 2012 price for 2013 and 2014. Our investigator put the offer to Miss O and Mr T and explained that she felt this was fair.

Miss O and Mr T have not accepted the offer. They have questioned how St Andrews is able to offer a very similar policy for under £400. They feel having compared the price now and recently in the past, St Andrews has consistently offered a new policy at or around this price, even the impact of a recent claim hasn't seen it offer a new policy for more than £600. They believe the only justification for the constant increase in price is that St Andrews price walked them previously and has treated them unfairly.

They've also questioned what No Claims Discount (NCD) was applied to the policy and if it ever was applied and how St Andrews can justify an average yearly price increase of around 10% on their policy when this is being applied too. And they feel Insurance Premium Tax (IPT) changes during this period have been minimal and don't explain the increase. They've also asked for more information about the benchmark our investigator referred to.

Because they disagreed with our investigator, the complaint has been passed to me for 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've decided to uphold this complaint and think the offer made by St Andrews to put things right is fair. I know Miss O and Mr T will be disappointed by this, but I'll explain how I've reached this decision.

It isn't disputed that Miss O and Mr T didn't engage with St Andrews about the cost of their policy during the years their home was insured with it. And St Andrews accepts, following our investigators assessment, that Miss O and Mr T's price for their insurance during this time didn't always reflect that it was treating them fairly.

The offer made to put things right here is what is now in dispute and whether this is a fair way to put things right.

Miss O and Mr T have questions about the amount offered. The main driver with these questions is the price they've been able to find similar cover for now with St Andrews.

It is understandable why, when looking at what they could insure their home for now, Miss O and Mr T feel the refund isn't reflective of how much they believe they've been overcharged. There is a stark difference between the cost of the policy when cancelled and the cost of the policy quoted by Mr T as what is achievable through St Andrews now. But it is important to explain that the price of insurance policies can vary significantly between insurers and even with the same insurer, the sales channel and product provided can mean a simple comparison of one policy against another cannot be taken to show that the price was wrong or unfair.

Recent changes to price regulation for home and motor insurance have set to address issues with general insurance. The Financial Conduct Authority (FCA) implemented new rules this year which mean insurers must, at renewal, offer existing customers a price equivalent to the price a new customer would be offered with the same circumstances. But these rules accept that there will be a difference in price offered between insurers and between the sales channel. Put simply, it recognises some sales channels may have a different price point based on the costs of the channel itself.

St Andrews hasn't explained how Miss O and Mr T's policy was taken out. But it was taken out alongside a mortgage and it is likely this was taken out in branch and not through a comparison website. And the prices Miss O and Mr T have provided as comparisons may be showing the cost of a policy sold through a different channel.

With the above in mind, I've looked at the information provided by St Andrews to explain why it feels the price increased as it did. And when it thinks this didn't demonstrate it was treating Miss O and Mr T fairly, whether the offer now addresses this unfairness based on the policy they had.

It was common for insurers to apply a new business discount when a policy was first taken out and that the discount applied at inception, be recouped over a number of years as the policy renewed. The FCA's new pricing rules have looked to remove this practice but these are not retrospective.

St Andrews has explained it did provide a new customer discount on Miss O and Mr T's policy and it wasn't until 2012 that it had recouped this discount. So it feels these price increases are fair. As Miss O and Mr T had the benefit of the reduced premium for the first years of the policy, I don't think St Andrews acted unfairly when this was recouped.

Mr T explained to our investigator that he felt once the discount had been recouped that the price should have reduced. However, this discount often took the cost of the policy below the price the business needed to charge to be sustainable. I wouldn't expect a price to decrease once the premium had been brought to where the business deemed it should be to be economical. I also think it fair that this would include allowing a margin for profit.

So I think St Andrews increased the price of Miss O and Mr T's policy fairly up until 2012 and Miss O and Mr T had the benefit of this discount when the policy was taken out.

Once the discount had been recouped, although I don't agree it would be fair to expect the premium to start to reduce again, it is fair to expect the business to be able to explain why the price continued to increase. Inert customers are vulnerable to accepting price increases without question and if these are simply because of an increase in the margin and not because a change to the risk or underlying cost of the policy, this wouldn't be fair.

After 2012 St Andrews hasn't been able to explain why the price increased as it did with Miss O and Mr T's policy until 2015. It has accepted it is fair to refund the difference paid in excess of the price in 2012 and the price paid in 2013 and 2014, allowing for an increase only in line with inflation. This is in line with what I'd expect it to do and so I think it has acted fairly here.

In 2015 St Andrews introduced a new pricing model for all its customers. I can't share the details of this with Miss O and Mrs T as it is commercially sensitive. But the steps taken by St Andrews meant it applied set parameters to all of its policies with a maximum target it expected to charge. Anything within this target amount demonstrated the customer was being treated fairly, in line with the maximum other customers with the same policy sold through the same channel would be charged.

St Andrews reviewed Miss O and Mr T's premium history against this model and has identified that there were some years when their premium was in excess of the target and it hasn't been able to explain why this was. So it isn't sure the price charged was fair and it has made an offer to put this right. The refund offered addresses the difference in price paid and what Miss O and Mr T would have paid had the price not exceeded the target model. So I think it's a fair offer as it puts them in the position they would have been in had there been no error.

Mr T doesn't think the explanation provided by St Andrews to this service about the models it has in place is fair or justified. He said the quotes he has received are so far away in price from what he was actually paying, that these models cannot have been applied across its insurance. As I've said earlier though, the quotes Miss O and Mr T have relied on to demonstrate the unfairness of their price are through an online comparison and it is likely this is a different channel and product to the one they had previously with St Andrews. And having compared the quote and their previous renewals, I don't think the level of cover is identical. So simply comparing the two prices doesn't indicate what price the insurance should have been. Nor does it demonstrate if Miss O and Mr T were being treated fairly or not by St Andrews previously.

Lloyds hasn't specifically pointed to changes in IPT as justification for the price increases with Miss O and Mr T's policy. But during the time they were insured with St Andrews, IPT increased from 5% to 12% so there was a fairly large increase in these during this time. But St Andrews hasn't explained this was the reason for the price increases on the policy and there was no change in the IPT rate for the 2013 and 2014 policies.

Miss O and Mr T have also questioned whether the NCD was applied to their policy and what the level of discount was. The renewal documents state a discount of 30% was applied each year for their NCD and this is worked into the policy price overall. St Andrews has provided evidence to show this discount was applied at this level to the policy and I've seen nothing to indicate that the discount quoted in the renewal document was incorrect.

Overall, considering everything provided, I think the offer made by St Andrews is fair. I feel it addresses the points in time when St Andrews didn't treat Miss O and Mr T fairly and puts right this unfairness in line with how I'd expect it to.

Putting things right

St Andrews Insurance Plc should:

- Refund Miss T and Mr O the difference paid in excess of the price of their insurance in 2012 and the price paid in 2013 and 2014, allowing for increases in line with inflation.

- From 2015 through until the policy was cancelled in 2018, refund Miss O and Mr T anything paid in excess of St Andrew's target price for their insurance for these years.

- It should apply 8% simple interest to this payment. If it feels it needs to deduct tax from this, it must upon request, provide Miss O and Mr T a certificate to confirm the tax deducted.

My final decision

For the reasons I've explained above, I uphold Miss T and Mr O's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss O and Mr T to accept or reject my decision before 12 January 2023.

Thomas Brissenden
Ombudsman