

## **The complaint**

Mr R complains that Halifax, trading as St Andrew's Insurance Plc, didn't make him aware it was insuring his home and contents and he said he was paying too much for the policy. He also complains that he wasn't made aware that his insurance premiums were included within his mortgage repayments and so he has been unfairly charged interest on these.

## **What happened**

Mr R took out home insurance with St Andrew's in 2008 when his mortgage began, but said he was unaware of this or that his mortgage payments included a charge for the policy. St Andrew's sent annual renewal documents, but Mr R said he didn't think it applied to him. St Andrew's also said the policy was set out on Mr R's mortgage statement and so he ought to have been aware of its existence. But Mr R said he didn't read the mortgage statements.

In May 2021 St Andrew's wrote to Mr R that his insurance premium wouldn't be added to his mortgage balance any more, and it would arrange a different way for him to pay if he wanted to continue the policy. But Mr R cancelled and complained to St Andrew's.

Mr R said he first became aware of the policy when St Andrew's called him in 2021 asking to amend his payment details. Mr R acknowledged he'd ignored two letters from St Andrew's about this. He said he hadn't got home insurance with any other insurer, but wouldn't have required contents cover and would have shopped around for a building policy had he known how expensive St Andrew's policy was.

St Andrew's said it didn't have a record of what was discussed with Mr R when the policy started, but it sent him details and of the cooling off period. It said it was clear that although building insurance was compulsory, it didn't have to be with St Andrew's. It said Mr R was sent 12 annual renewal packs with details of premium and cover and mortgage statements setting out the insurance premium. St Andrew's said it had correctly charged Mr R for the policy according to its assessment of the risk and had sent him a quote at each renewal.

St Andrew's said that Mr R's complaint about the interest charged on his monthly insurance premiums was brought out of time. It said that a statement sent to Mr R in 2013 would have alerted him to the interest charged on his premiums and should have given him cause to complain had he wished to at the time, but his complaint was brought too late.

Our investigator recommended the complaint be upheld. She said the mortgage application, mortgage offer and welcome pack provided Mr R information about his insurance policy and this was followed by annual information detailing the policy and cost. But she said premiums were above St Andrew's guidelines and it was unfair to charge interest at the mortgage rate as Mr R wouldn't have paid this to another insurer. The investigator said the 2013 statement was insufficiently clear for Mr R to have been reasonably aware he had cause for complaint.

The investigator recommended St Andrew's refund the difference in what Mr R paid for the policy above the target price from 2008 to 2018, and from 2018 to 2021 with interest. And reimburse the interest paid for the life of the policy, and pay Mr R £150 compensation.

St Andrew's disagreed with the investigator, saying Mr R was provided with information about his insurance and the link to his mortgage. St Andrew's said the statement of March 2013 made it clear to Mr R that he would pay interest on his insurance instalments at the mortgage rate and so the interest shouldn't be refunded to him. It gave examples of other decisions from our service which it said supported this approach. St Andrew's agreed to pay the compensation of £150.

### **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 have decided to uphold this complaint and for similar reasons to those given by the investigator. I have reached this decision on the individual merits of this complaint, having considered the circumstances of Mr R's insurance policy and response to the information he was sent.

Mr R said he was unaware of his home insurance policy with St Andrew's. I've seen a copy of Halifax's mortgage offer to Mr R from April 2008. This states that he must have buildings insurance, but this need not be with Halifax. It sets out his monthly payment and states, *'Insurance you have chosen to take out through Halifax – contents insurance and Life cover'*. The mortgage application completed at Halifax's branch records, *'Existing Insurance Cover Discussed'* 'Yes'. I think for this reason and the renewal documents sent to Mr R each year, it ought to have been clear to him that he had taken out insurance cover with St Andrew's from when his mortgage started.

St Andrew's records show there was no interaction from Mr R throughout the life of his insurance policy, until March 2021 when he complained. Part of his complaint was that the home insurance premiums were extortionate. The premium an insurer charges is largely based on an assessment of the likelihood of a customer making a claim and how much this is likely to cost. A wide range of factors are considered by underwriters, and each insurer will have its own approach and appetite for taking on risk.

It's not our role to tell an insurer how to price their policies or what factors they should consider when calculating a risk. However, we will look to see that an insurer is applying a fair and consistent approach to policyholders in similar circumstances. And so I have considered whether or not St Andrew's has acted within its own guidelines.

To do this we have looked at the loadings table and breakdown of risk factors that St Andrew's has provided us together with an explanation of its approach to pricing. This is commercially confidential information which we will not share, however we have seen that St Andrew's has charged Mr R above its target price. I agree with the investigator's assessment that Mr R has been charged unfairly for his insurance policy and I will require St Andrew's to reimburse Mr R with interest. The addition of interest to our award is important as Mr R has lost the use of the money he has paid for the unfair premiums.

Mr R said it was unfair of St Andrew's to charge and add interest to his mortgage in respect of his insurance policy. St Andrew's said the complaint was brought outside of the time limit set for our service to consider complaints by the Financial Conduct Authority. In 2013 Halifax issued a new style mortgage statement. It said this confirmed that Mr R held mortgage-linked insurance and his payment included a monthly contribution towards the insurance premium. And further that any premiums that remain unpaid will attract interest. The statement says:

*'As you have mortgage linked insurance, your total monthly payment includes the following: Monthly Mortgage Payment £319.23 Monthly Buildings Insurance Premium £44.99 Total Monthly Payment £364.22. Any insurance premiums added to your mortgage that remain unpaid are included in the amount you owe and you will be charged interest on these'.*

The latter sentence refers to unpaid premiums and so I think a policyholder such as Mr R that paid their premiums throughout the life of the policy might reasonably think this didn't apply to them. I haven't seen anything that would have alerted Mr R to the benefit of paying his premiums annually so as to escape the addition of mortgage interest onto his monthly premiums. And so I don't think Mr R's complaint on this point is time barred as St Andrew's have suggested. However, I think that any redress should start from the policy renewal in 2013 when the initial business discount had been recouped and the refund should be for premiums in excess of the previous three-year fixed policy price.

St Andrew's said that the insurance position is clear from the mortgage conditions, and I can see a reference to the effect of monthly insurance payments on the mortgage from section 19 of the 'Information about your mortgage' booklet. However, I think this could have been more prominent and the position isn't clear from the insurance information provided by St Andrew's.

I think it was St Andrew's responsibility to explain to policyholders that paying insurance premiums monthly would mean interest would be added to the capital balance of their mortgage at the mortgage rate of interest. It hasn't given a proper explanation of this to Mr R and so this aspect of his complaint is upheld.

In conclusion, although I think Mr R ought reasonably to have been aware of his policy, he hadn't engaged with St Andrew's for many years and so was unlikely to have considered or compared the cost of his policy at each renewal.

The investigator recommended that St Andrew's pay Mr R compensation of £150 for the inconvenience of having to pay in excess of what he ought to have paid on his premiums and interest. St Andrew's agreed to this, and I think the recommended compensation is fair.

### **My final decision**

For the reasons I have given above it is my final decision that the complaint is upheld. I require St Andrew's Insurance Plc to pay the following to Mr R.

- The difference in what he paid for the policy from 2013 until 2015, against the initial fixed price allowing for inflation in line with the consumer price index.
- The difference in what he paid for the policy above the target price in place at the time, from 2015 until 2021.
- Add simple interest to the refund of 8%.
- The interest paid at the mortgage rate each month from the date of inception to the date the policy ended, month on month.
- Add 8% per year on each interest payment from the date paid to the date of settlement.
- £150 compensation for the impact the poor service has had upon him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 9 March 2023.

Andrew Fraser

**Ombudsman**