

The complaint

Mrs H is unhappy that Society of Lloyd's increased the cost of her income protection insurance premiums.

What happened

Mrs H took out an income protection insurance policy in April 2019 to cover her mortgage and house expenses in the event she became unemployed. She is unhappy that the premiums increased from £47.40 to £61.60 in October 2020. In February 2021 there was a further increase, bringing the monthly premium to £114.40. Mrs H complained because she said her premiums had increased by 141% in two years.

In their initial response Society of Lloyd's said that the policy was a rolling monthly contract and that the policy terms could change with 30 days notice. That included changes to the price. However, they offered £100 compensation as a gesture of goodwill because they said Mrs H had been caused some confusion and inconvenience. Mrs H escalated her complaint and Society of Lloyd's issued a further response, maintaining their position that the increase was fairly applied by the underwriters of the policy and in line with the policy terms.

Unhappy, Mrs H complained to the Financial Ombudsman Service. She reiterated that there had been a further increase in the price of the policy in February 2021. She explained she held two policies, and one of the insurers hadn't increased the price of the premiums. Mrs H explained that she couldn't swap to another provider and was unfairly having to pay the increases.

Our investigator looked into what had happened and upheld the complaint. She recommended Society of Lloyd's pay Mrs H £350 compensation. She said that Society of Lloyd's hadn't made it clear enough that the premium could increase at any time. And, they hadn't adequately explained why the cost of the policy had increased so much.

Mrs H said she thought the level of compensation was low given that there had been no justification for the price increases and that Society of Lloyd's could continue to do this at any time. However, she accepted the investigator's findings. Society of Lloyd's asked an ombudsman to review the complaint.

Having reviewed the complaint, I asked our investigator to get in touch with Society of Lloyd's and Mrs H as I was considering increasing the compensation to £500. That was because I didn't think £350 fairly reflected the distress and inconvenience caused.

Mrs H said she was happy to accept this increased compensation. Society of Lloyd's said the impact of Covid-19 on the market for this type of policy was responsible for the majority of the distress, worry and inconvenience caused. They highlighted that other providers had withdrawn from the market and that the compensation of £500 isn't in line with the examples on the Financial Ombudsman Service's website. They said that they agreed Mrs H should receive compensation for the inconvenience caused by not being given sufficiently clear information about the full implications of having a monthly renewable policy. But, they thought £150 compensation was fair. Society of Lloyd's also highlighted they'd provided sufficient evidence to justify the increases in the price of the premiums.

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.

The policy documentation

The policy documentation, issued to Mrs H in April 2020, referred to the 'annual review of your short term income protection insurance'. The schedule of insurance refers to the monthly, and annual cost of the policy and says the policy end date is in April 2021.

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'.

Under the heading 'Annual Review' the policy terms say:

We will review your policy each year on your policy anniversary date, which shall be the date 12 months from the start date of your policy and annually thereafter. Any changes that we wish to make will be implemented with effect from the next or nearest policy anniversary date. We may make changes to policy cover and/or terms and conditions as a result of the cost of providing this cover to you, therefore your premium may increase or decrease or remain unchanged as a result of the annual review. Please note there is no limit to the size or nature of the changes.

You will be notified in writing at least a minimum of 21 days prior to your policy anniversary start date each year, of any changes which we intend to make to your policy.

In July 2020 Society of Lloyd's wrote to Mrs H to clarify that the policy was a monthly rolling policy and saying that amendments could be made by giving 30 days notice. They said the policy wording doesn't confirm that the cover was monthly renewable but does refer to an annual review. They said the information needed to be corrected and provided a copy of updated policy terms and conditions.

The relevant law, industry rules and industry guidelines

The Principles for Businesses ('Principles') are set out in the Financial Conduct Authority (FCA) Handbook and Society of Lloyds is obliged to follow these.

They include:

- Principle 2 – A firm must conduct its business with due skill, care and diligence

- Principle 3 – A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
- Principle 6 – A firm must pay due regard to the interests of its customers and treat them fairly.
- Principle 7 - A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading.

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.

Has Society of Lloyd's treated Mrs H fairly?

I've taken into account all the information and arguments submitted by the parties. But I'll focus on those which I think are central to the outcome of this complaint.

I'm upholding Mrs H's complaint and directing Society of Lloyd's to pay her £500 compensation because:

- Based on Society of Lloyd's most recent submissions they accept Mrs H wasn't given sufficient information to understand the full implications of a monthly renewable policy. In any event, I think that's the case for the reasons I'll outline below.
- The policy wording didn't make it clear that the policy was monthly renewable. Society of Lloyd's acknowledged in their letter of July 2020 that the policy wording didn't say the policy was monthly renewable and needed to be corrected.
- The policy documentation Mrs H was provided with in April 2020 referred to it being annually reviewable. This was also reflected in other sections of the policy documentation, such as the schedule of insurance.
- I don't think Society of Lloyd's made it sufficiently clear to Mrs H that her policy was a monthly contract or what the implications of this were. This meant her premiums could increase at any time, and the increases could be unlimited in nature. I think this was a significant limitation in cover which ought to have been clearly highlighted to her. I don't think this was clear, prominent or transparent in the policy documentation.
- Mrs H didn't realise the implications of this until the price of her policy increased in October 2020 and again in 2021. I think this has caused her worry, confusion, distress and inconvenience. Following the impact of Covid-19 it was increasingly difficult for Mrs H to source alternative cover. She's told us that she's still unable to get an alternative policy to replace this one. So, she's in a position where she has to pay significantly higher premiums or cancel her income protection policy.

- I think if Mrs H had known that the price of the policy could be subject to unlimited changes, which could take place more than once a year, it's unlikely she'd have taken out this policy. I think it's more likely that she'd have taken out an annually renewable policy which offered her greater stability.
- I've taken into account that Society of Lloyd's doesn't consider there to be persuasive evidence that's the case. But their representations haven't changed my thoughts about the outcome of this complaint. Mrs H complained to Society of Lloyd's in October 2020, shortly after she was notified of the first increase which took place outside of the annual review period. In her complaint she said that this wasn't how the policy was marketed to her and she referred to the terms relating to the Annual Review of the policy. So, all of this leads me to conclude, on balance, this would have been an important feature of the policy to Mrs H. I particularly bear in mind that a core feature of her policy was to offer her financial stability and security.
- I've taken into account the information Society of Lloyd's has referred to on the Financial Ombudsman Service's website and what it's said about annually renewable policies leading to one, large increase at renewal. Mrs H took out the policy to ensure financial stability and security during uncertain times. Now, she is struggling to make the increased payments and can't move provider. So, I don't think the compensation offered by Society of Lloyd's fairly reflects the short- or long-term impact on Mrs H. I think £500 more fairly reflects the distress and inconvenience caused to Mrs H at an already worrying and uncertain time. I don't think this was just caused by the impact of Covid-19 on the income protection market. It was also caused by Mrs H realising she had a product, designed to offer her financial stability, which could change in price at any time with relatively short notice at a time when she couldn't source alternative cover.
- Society of Lloyd's also said that they were confused as to why the investigator referred to RPPD whilst also acknowledging the impact of Covid-19 on the income protection market. And they provided further information about their decision to increase the policy premiums, re-iterating the explanations it gave to Mrs H about the need to increase the premiums to ensure ongoing cover. But, even if I accepted this explanation, I still don't think the policy documents were clear enough about the premium increases which in effect, were unlimited in both frequency and size. I think this has placed Mrs H at a disadvantage and she has lost out as a result.

Putting things right

I'm upholding this complaint and direct Society of Lloyd's to put things right by paying Mrs H £500 compensation for the distress and inconvenience caused to her.

My final decision

I'm upholding Mrs H's complaint about Society of Lloyd's and direct them to put things right in the way I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 17 April 2023.

Anna Wilshaw
Ombudsman