

The complaint

Mr T is unhappy that Society of Lloyd's increased the cost of his income protection insurance premiums.

What happened

In May 2019 Mr T took out an income protection policy underwritten by Society of Lloyds. The policy covered him for accident, sickness and unemployment and was priced at £49.49 per month.

In July 2020 Society of Lloyd's wrote to Mr T to say that his policy was a monthly renewable policy and that amendments could be made with 30 days notice. They said the policy wording doesn't confirm the cover is monthly renewable but referred to an annual review. They said this information needed to be corrected and they provided updated wording.

Shortly after this letter was sent Mr T was notified that his monthly premiums would increase from £49.49 to £61.28 per month. There was then a further increase from £61.28 to £119.76 in 2021. Mr T was unhappy that the underwriters relied on the updated wording to justify the increase and said he couldn't afford the increased premiums. He said the situation was very stressful as he would potentially need to rely on the insurance in the coming weeks or months due to the economic uncertainty caused by Covid-19 and had been priced out of the market.

Mr T complained to Society of Lloyd's. In their initial response they said they'd acted in line with the policy terms and that the increases were necessary to ensure the underwriter could continue to provide protection for customers. Mr T escalated his complaint and Society of Lloyd's further responded to say that the increase was in line with the policy terms and had been applied to all policyholders. And they said, in summary, this was a commercial decision they were entitled to make.

Unhappy with Society of Lloyd's response Mr T complained to the Financial Ombudsman Service. He said that nowhere in the policy documentation did it say the policy was a monthly renewable contract and that the documentation was unclear and misleading. He thought the insurer had materially changed the nature of the contract of insurance and had no basis to justify the increase in premiums. He said this left him with a product he couldn't afford at a time when he most needed it and he was unable to shop around for alternatives because income protection policies had been withdrawn from the market.

Our investigator looked into what happened and upheld Mr T's complaint. He didn't think the policy terms did make it clear the policy premiums could increase at any time and that this wasn't apparent until the price increased twice within a period of seven months. And, he didn't think Society of Lloyd's had made clear, with reference to the underwriting data, why the premiums increased so much. So, he recommended Society of Lloyd's pay Mr T £500 for the distress and inconvenience caused.

Mr T accepted the investigator's findings. Society of Lloyd's provided further information in support of the reasons for the increase in the price of premiums. They referred to the letter sent to Mr T in September 2020 which explained that the scheme had sustained losses and there was no alternative but to increase the premiums to ensure ongoing cover. And, they said that Mr T might have faced a more significant increase in premium at the annual renewal date, if he'd taken out an annually renewable policy rather than a monthly renewable policy. They remained of the view the underwriter had acted fairly and reasonably. So, the complaint was referred to me for 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.

The policy documentation

The policy documentation, issued to Mr T in May 2019, and at the annual review in 2020, referred to the annually reviewable nature of the insurance. The schedule of insurance set out the monthly and annual costs of the policy.

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'.

On page 7, under the heading 'Payment of Premiums', the terms say:

If there are any changes to the rate of insurance premium tax or if we are required to impose any other tax or charges in respect of your premium, then we will amend your premium payment from the date when those changes take effect.

Under the heading 'Annual Review', on page 23, 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 Mr T received a letter clarifying that the policy was a monthly rolling policy and saying that amendments could be made by giving 30 days notice. The letter said the policy wording doesn't confirm that the cover was monthly renewable but does refer to an annual review. The letter went on to say this information needed to be corrected and provided a copy of updated policy terms and conditions.

This included the following wording under the heading, 'Payment of Premiums' on page 7:

If there are any changes to the rate of insurance premium tax or if we are required to impose any other tax or charges in respect of your premium, then we will amend your

premium payment from the date when those changes take effect. The premium will alter if you alter your monthly benefit and/or cover option and we can alter your premium at any time provided we let you know 30 days in advance.

And, on page 23, under the heading 'Making Changes' it said:

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.

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 Mr T fairly?

I'm upholding Mr T's complaint and directing Society of Lloyd's to pay £500 compensation because:

- 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 Mr T was provided with when he took out the policy, and at

the annual review point, 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 Mr T that his policy was a monthly contract or what the implications of this were. This meant his premiums could increase at any time, and those increases could be unlimited in nature. I think this was a significant limitation in cover which ought to have been clearly highlighted to him. I don't think this was clear, prominent or transparent in the policy documentation.
- Mr T didn't realise the implications of this until the price of his policy increased in October 2020 and again in 2021, following the clarification of the policy terms and conditions. I think this has caused him confusion, distress and inconvenience. Following the impact of Covid-19 it was increasingly difficult for Mr T to source alternative cover. He's told us that he's been unable to get an alternative policy. So, he's in a position where he has to pay significantly higher premiums which he's described as unaffordable.
- I think if Mr T 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 he'd have taken out this policy. I think it's more likely that he'd have taken out an annually renewable policy which offered him greater stability.
- Mr T complained to Society of Lloyd's in September 2020 shortly after he was notified of the clarification of the policy terms and the first increase which took place outside of the annual review period. In his complaint he said this wasn't fair and meant he'd either have to pay the increased premiums or cancel at a time when he couldn't access an alternative product. Throughout his complaint he's referred back to the original terms of the contract which specified the policy was subject to annual review. So, all of this leads me to conclude, on balance, this would have been an important feature of the policy to Mr T.
- Mr T took out the policy to ensure financial stability and security during uncertain times. Now, he is struggling to make payments for the increased payments and can't move provider. So, this had an immediate short-term impact on Mr T and a longer term impact as well. I think £500 fairly reflects the distress and inconvenience caused by this loss of expectation at an already worrying and uncertain time.
- 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 Mr T 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 Mr T at a disadvantage and he 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 Mr T £500 compensation for the distress and inconvenience caused to him.

My final decision

I'm upholding Mr T'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 Mr T to accept or reject my decision before 17 April 2023.

Anna Wilshaw
Ombudsman