

The complaint

Miss V has complained about the premium charged at renewal for her lifetime pet insurance policy with Great Lakes Insurance SE.

What happened

Miss V took out the policy in September 2021. Miss V says her decision to take the policy with Great Lakes was influenced by the marketing material and policy information, which stated that Great Lakes would not give new customers better deals than existing customers and would not increase premiums just because a claim has been made.

Miss V made six claims for her pet during the policy year, including for an intolerance to standard food which means her pet has to have prescription food.

When Miss V received the renewal invitation in September 2022, the premium had increased from £66.99 per month to £115.20 per month. And she noted that the documentation said that one of the factors taken into account, which might have increased the price of the policy, was her claims history.

Miss V obtained a quote from Great Lakes online as a 'new customer' entering in the same breed, age and postcode as her pet to see how much impact the claims history had on the premium and obtained a quotation for £81.14 per month, *i.e.* £34.06 pm less than she had been quoted by Great Lakes to renew her policy.

Miss V is very unhappy about this as she says it is contrary to the promises she was made when she first took out the policy. Miss V therefore says the policy was mis-sold. She asked Great Lakes to do the following:

- Change the premium to the amount it had been quoted as new customer (*i.e.* £81.14 per month).
- Agree to not include any further increases in the cost of policy renewal due to i) claims history or ii) new vs existing customer premium differences, for as long as she continues to insure with Great Lakes. And to issue her with a cost breakdown of the premium increases for each renewal of the insurance policy, proving this.
- Refund any overcharged premium costs incurred while this complaint is being investigated.
- Pay £20 compensation to cover her reasonable expenses incurred in pursuing the complaint (time, stress and the cost of recorded postage posting letters of complaint).
- Issue an apology for the misleading information it gave regarding insurance premium rises, as well as for the time and effort she has spent in pursuing the complaint.

Great Lakes said that when Miss V's policy first started, it did take account of the costs of claims made by its policyholders but the cost was spread across all customers. It confirms that since July 2022 it changed the way it prices its pet policies and does take account of claims made on an individual basis. Great Lakes says it is entitled to make this change.

Great Lakes said it could not give a breakdown of its pricing decisions, as this would include commercially sensitive material. It also said that the details Miss V had entered when getting a quote as a 'new customer' said the pet was 5 years old, and with no claims history, which is why it was cheaper. However, it offered £20 compensation and said that as Miss V's pet had no pre-existing conditions, she was free to take insurance elsewhere.

Miss V remained unhappy and referred the complaint to us. She asked for increased compensation. She also said Great Lakes had tried to discourage her from bringing the complaint to us by false stating that we are "... *not in a position to instruct [it] on how [to] operate a business overall including the calculations of our policy premiums.*" She says this is false and caused her distress and anxiety.

Miss V also said she disclosed her pet's full vet records to another lifetime pet insurer and it imposed pre-existing condition exclusions, which shows she will find it difficult to change insurer now.

One of our Investigators looked into the matter. He initially recommended that Great Lakes pay £100 compensation and recalculate the premium based on what it would have charged a new customer, as he was satisfied that Miss V had been charged more as an existing customer and thought this was unfair, given what she had been told when she first took out the policy.

Great Lakes did not accept the Investigator's recommendation as it said the new customer price Miss V obtained was based on a pet having had no health issues for 24 months prior, which is not the case for Miss V's pet. If Miss V were a new customer, it would underwrite the policy according to her pet's risk, which would have meant a new monthly premium of £108.45 and a lower cover limit of £1,500 for pre-existing conditions. Whereas her renewal was £115.20 per month with a cover limit of £15,000, having made six claims in the first policy year. Great Lakes therefore said this was not comparable and she was not disadvantaged as an existing customer.

Having reviewed the matter, the Investigator accepted Great Lakes had calculated the premium correctly but recommended that Great Lakes pay Ms V compensation of £400 for the distress and inconvenience caused when finding out that the basis of pricing for the policy had changed.

Great Lakes does not accept the Investigator's assessment. It says that the breed of Miss V's pet and her home postcode were the biggest risk factors which affected the pricing of her policy. The impact of the claim on the pricing was one of its lowest ratings. Great Lakes therefore considers the compensation proposed by the Investigator to be disproportionately high and out of line when considered against other similar complaints. It suggested £300 would be more appropriate.

Great Lakes also said that any compensation would be a one-off and now that Miss V is aware that premiums can increase and that claims can be a rating factor, it would not pay compensation to her again if she complains about her renewal pricing in the future.

Miss V does not accept the Investigator's assessment either. She says the compensation recommended does not fully compensate her for this matter. She also says that if there is no recourse or consequence for Great Lakes betraying its promise that claims made will not affect future premiums this will set a precedent and this is an issue that will have affected many more lifetime insurance customers with Great Lakes and potentially other insurers wishing to follow suit. Miss V says that while Great Lakes is entitled to change its business model in relation to new customers, it should have to continue providing insurance to

existing customers subject to the terms and promotional material provided to them at the outset.

As the Investigator was unable to resolve the complaint, it has been passed to me.

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.

Policy pricing

It is generally up to insurers to decide what cover they wish to provide and the premium that they want to charge for that cover, based on the risk that it thinks a customer presents.

Normally insurers calculate a base premium rate for a policy and then other factors they consider relevant to the risk being covered are applied, which might bring that base premium up or down. There is no limit to how much the premium could be and I can't impose one. Different insurers apply different factors. In general, the cost of insuring a pet will increase each year as the pet gets older and the cost of medical treatment rises. In addition, certain breeds are more prone to injuries/illness at different ages. It is not unfair or unusual therefore for these factors to be significant in the decision made by an underwriter about how much it wants to charge for the cover to continue. Some insurers also take account of claims made.

We have no power to make an insurer calculate risk in any particular way, provided it has applied its criteria fairly. I do not therefore think that Great Lakes was misleading Miss V when it told her we could not instruct it on how to operate its business, including how it calculated premiums. Similarly, individual consumers have a choice about which policy and which insurer they wish to take insurance with, or not take insurance at all (unless it's a requirement, legal or otherwise) and meet any treatment costs themselves.

I can't set out in detail all the factors that Great Lakes considers relevant and applies to its policies and the ratings it applied for each of these factors, as these are commercially sensitive. However, I have considered the information it has provided. Great Lakes has confirmed that the number of claims made by Miss V in the policy year 2021 to 2022 was a factor in the premium set for 2022. It says the claims made had less of an impact on the increase in premium than Miss V's postcode and age of her pet. The information I have seen supports this.

Miss V's premium increased significantly but I haven't seen any evidence to suggest Great Lakes treated her differently from how it would have treated any other policyholder in the same position. So I can't say it acted unfairly when pricing the policy.

Miss V says she was deliberately deceived at the initial sale of the policy in 2021, as she was told her premiums would not be affected by any claims she made.

Great Lakes didn't sell the policy to Miss V but it did provide the documentation that was provided to her when it was sold. The position when this policy was sold to her in 2021 was that claims made would not directly affect the price of the policy for individual policyholders. I do not therefore think Miss V was mis-led or mis-informed in September 2021, as the information given to Miss V was correct at that time.

Great Lakes was also entitled to change the way it calculates its premiums. This is a commercial decision that we have no power to interfere with.

However, what I think Great Lakes did wrong was not inform Miss V in advance when it made the decision to take an individual claims into account and it did not make it clear this was a change it was making in the renewal information. Great Lakes did mention in the renewal documents that it was taking account of claims made but not that this was a change from how it did it before. I have to therefore consider the impact, if any, these matters had on Miss V. I will address this below.

Existing customer v new customer

Miss V also says she was told that existing customers would not be charged more than new customers. I have seen that the 'new customer' quote Miss V got from Great Lakes, says it provides cover for illnesses or conditions that ended more than two years previously and that cover could be quoted to include pre-existing conditions. When asked if she wanted to enter details of any pre-existing issues, Miss V marked 'no'.

However, Miss V also told us that her pet was on a prescription food which means it as an ongoing condition. And she provided evidence from another insurer that it would have imposed restrictions on a policy for her pet based on its claims history. One restriction would have been reviewable after 2 years and the other two matters reviewable after three months.

Great Lakes told us it sets the same premium for new and existing customers. It said it did not consider Miss V's pet had any ongoing pre-existing conditions and therefore she'd be free to insure elsewhere if she did not want to renew her policy.

However, it also said that if she came to it as a new customer and declared her pet's claims history it would have charged her £108.45pm for a lower cover limit of £1,500 (as opposed to £115.20pm for £15,000 of cover). And the quote Miss V obtained as a new customer with a pet with no health issues in the previous two years cannot be compared with her quote as an existing customer with a claims history.

While Miss V did not have to declare pre-existing conditions when getting her quote, if she had not done so the policy would exclude claims for anything for which the policyholder had sought treatment, medication or advice for in the previous 24 months. So the cover would have been restricted for Miss V as a new customer. The cover she would have had would not therefore be entirely like-for-like with her existing policy.

I am therefore satisfied that Miss V was not treated unfairly as a result of being an existing customer.

Compensation

As I think Great Lakes should have given Miss V information about the change in the way it intended to set the premiums for her policy sooner than it did, I need to consider the impact this has had on her, if any; and if it did have an impact whether any compensation is warranted.

Miss V says she will have difficulty getting alternative cover as her pet has special food and other matters are recorded on the vet's notes and this is unfair. However, as stated insurers are entitled to set their own prices and pricing criteria and it is not unfair or unreasonable that they increase those to reflect the risk they are taking on. I understand that Miss V might now be in a difficult position but that is not as a result of anything Great Lakes has done wrong.

It is difficult to know exactly what Miss V would have done, if she had known about this change sooner. I recognise that she was prevented from making an informed decision about some of the low value claims she made in the policy year. Overall however, I think her

position would have been the same. I say this because Great Lakes was entitled to make the change and, because it applied one of the lowest rating for claims made, the renewal premium would still likely have been set at the amount it was (or very close to it) as the main cause of the increase in premium were other risk factors.

However, I do understand that the change to the way it calculated the premium came as something of a shock to Miss V, and if Great Lakes had given her more information sooner (perhaps when it changed its policy about his) about the likely effect of claims on premiums, then she wouldn't have been so surprised by the increase. And, as mentioned above, because she wasn't told sooner she was prevented from making an informed decision about the claims she made.

So I agree with the Investigator that some compensation is appropriate to reflect the distress and inconvenience this caused. Great Lakes says the compensation the Investigator recommended is higher than it would expect but I have to consider the impact on Miss V. Having considered everything, and for the reasons given above, I agree with the Investigator that the sum of £400 is appropriate.

Miss V says this amount is not sufficient to act as a deterrent to Great Lakes, or other insurers, but it is not a penalty. We do not regulate insurers and therefore cannot make punitive awards. It is an award of compensation to reflect the fact that Miss V was not expecting an increase in her premiums as a result of claims she'd made. It is not intended to compensate for the future cost of insuring her pet, or for opting to no longer insure her and cover the cost of any treatment himself.

Having considered everything, I am of the opinion that £400 is reasonable to reflect the fact Miss V was not aware the claims she made in the policy year 2021 to 2022 would be considered when the 2022 renewal premium was set and therefore also didn't expect the premium would go up as much as it did.

My final decision

I uphold this complaint against Great Lakes Insurance SE and require it to pay Miss V the sum of £400 compensation for the distress and inconvenience caused by this matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss V to accept or reject my decision before 17 November 2023.

Harriet McCarthy
Ombudsman