

## **The complaint**

Ms W complains about how Red Sands Insurance Company (Europe) Limited (Red Sands) applied a co-payment deduction to a claim under her pet insurance policy for treatment of her dog and made no payment under the death of pet benefit.

References to Red Sands include their agents who administer the policy.

## **What happened**

Ms W had a pet insurance policy with Red Sands, covering her dog, taken out in September 2019. In December 2022 Ms W took her dog to a vet as it had been lethargic and hadn't eaten for a few days. Subsequent radiographs indicated something abnormal in the dog's intestines (the dog had been known to swallow foreign objects). Subsequent exploratory surgery identified a foreign body (rope cord and fabric) in the stomach, which was removed. However, the dog's condition deteriorated and had to be euthanised two days later.

The vet raised invoices for the cost of treatment, totalling £6,663.80 and Ms W made a claim under the policy. However, Red Sands only paid £1,600 of the bill, something Ms W said she only became aware of when the vet sent her a bill for the balance of the cost of treatment in February 2023.

Ms W was unhappy at her claim not being paid at the full amount of the vet bill. She was also unhappy at Red Sands not making a payment under the death of pet benefit section of the policy, which she thought would mean a payment of £750.

Red Sands treated her challenge as a complaint but didn't uphold it. In their final response they referred to the policy documentation sent to Ms W at the time of the policy renewal in August 2022.

Ms W then complained to this Service. She said she wasn't told about the outcome of her claim until she chased Red Sands for it. Nor had she been told that once a dog passed eight years of age the level of cover would be reduced (by application of a co-payment deduction) and that if a pet died the death of pet benefit reduced with the age of the pet. She'd had to borrow money to pay the outstanding vet bill. She'd also been affected emotionally by what had happened, at a difficult time with the death of her dog. She wanted Red Sands to pay the full value of the claim.

Our investigator upheld the complaint in part. He didn't think Red Sands had applied the co-payment deduction fairly. While the policy specified it would be applied to the claim limit, this wasn't fair and reasonable as it meant a policyholder would not (when combined with the application of the policy excess) receive payment up to the claim limit. So, in reality, the policy limit was less than the amount stated. The investigator thought it should be highlighted more clearly in the Insurance Product Information Document (IPID). To put things right, the investigator thought Red Sands should settle the claim up to the claim limit of £2,000.

The investigator also thought Red Sands should pay Ms W £100 for the inconvenience of having to chase them for a response when she didn't hear anything about her claim.

On the death of pet benefit, the investigator initially thought Red Sands had met its responsibilities by sending the policy documents to Ms W and had correctly refused the claim as the policy specified once a dog reached eight years of age, the benefit would be 25% of the purchase price of the pet. But only if it died from an accident. As the death of the dog was due to illness – not an accident – Red Sands had applied the policy terms correctly.

Ms W responded to the investigator's view to say her dog passed away following surgery to remove a toy the dog had swallowed. So, she thought the cause of death was the result of an accident (swallowing the toy) and not illness.

The investigator accepted Ms W's view and issued a supplementary view concluding Red Sands should pay £87.50 as death of pet benefit (25% of the dog's £350 purchase price).

Red Sands disagreed with the investigator's conclusions, and requested an ombudsman review the complaint. In disagreeing, they said co-payments were an industry-wide practice and an affordable way to obtain pet insurance for older pets and keep down premiums. As with any insurance product, the increased risk (as pets grew older) had to be considered. And co-payment deductions only applied if a [future] claim was made. The policy documents sent to Ms W at policy inception and renewal made the position and approach to co-payment deductions clear (that the co-payment was deducted from the vet fee benefit – claim – limit).

### **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'd first want to say I appreciate the difficult circumstances of Ms W losing her dog, which I know were very distressing for her. My role here is to decide whether Red Sands have acted fairly towards Ms W.

The two key issues in Ms W's complaint are, firstly, whether Red Sands acted fairly in applying the co-payment (and excess) deductions to the claim limit specified in the policy (£2,000). Ms W says this is unfair and wasn't made clear. Red Sands say they have applied the excess and co-payment deductions in line with the policy terms and conditions, which were clearly communicated to Ms W in the policy documentation (included in the renewal invitation in August 2022).

The second issue is Red Sands not making any payment for the death of Ms W's dog under the death of pet benefit section of the policy. Ms W says she wasn't made aware of the age limit above which no benefit was payable. Red Sands again says the policy documents make the benefit terms and conditions clear, so Ms W should have been aware.

There's also a further issue about Red Sands not telling Ms W about the status (rejection) of her claim until she received the bill from the vet.

Before considering these issues, I've looked at the claim made by Ms W and what Red Sands paid to settle the claim. Red Sands say they issued a letter to Ms W in December 2022 in which they accepted the claim, making a payment of £1,600 to her bank account. The letter broke down the payment as follows:

Cost of treatment	£6,663.80
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Less: total not claimable	£4,564.80 <sup>1</sup>
Claimable costs	£2,099
Less: policy excess	£99
Less: co-payment (20%)	£400
Total payable	£1,600

I've then considered the issue of the co-payment. I've noted the IPID issued at renewal in 2022 contains the following under the heading *Are there any restrictions on cover?*:

*"! Once your dog reaches the age of 8 or your cat reaches the age of 10, you'll have to start paying either 20% or 35% of the vet fees every time you make a claim. This is known as a co-payment and the amount will be deducted from your vet fee limit.*

The Policy Schedule at the 2022 policy renewal stated the co-payment deduction is 20% (the excess on vet fees is £99). There's also a reference to further details in the policy documentation.

I've also noted the renewal notice for Ms W's policy, in August 2022, includes the following statement under a heading *As [name of dog] gets older*:

*"as [name of dog] is now over the age of 8, you'll have to start paying a 20.00% share of the vet fees every time you make a claim (including claims for ongoing treatment). This is called a co-payment and it is charged in addition to the excess on your policy.*

*This policy allows you to claim a percentage of the purchase price you paid for your pet if they die. Because [name of dog] is now over the age of 8, this benefit will now only be paid if the cause of death is an accident."*

The detailed policy wording (and other documents) also refer to the co-payment deduction for dogs over eight years of age. Ms W says she didn't receive policy documentation at renewal in August 2022 so wasn't aware of the co-payment deduction. However, looking at earlier policy documentation, the co-payment deduction is referred to. For example, the 2018 policy document includes the following statement under the *Policy Summary* section, sub heading *Policy Limits*:

*"Co-Payment*

*A co-payment is payable for dogs aged 8 years and older and for cats aged 10 years and older. This is deducted from the Condition Limit.*

*Please refer to your schedule for the excess and co-payments applicable for each condition."*

While Ms W's dog didn't reach eight years of age until early 2022 (so the co-payment deduction would only apply from the August 2022 policy renewal) I think she should reasonably have been aware of the existence of a co-payment deduction. The application of a co-payment deduction is also common to many pet insurance policies, reflecting the increased likelihood of conditions arising as a pet grows older. This means an increased risk of claims, which is reflected in both the premiums charged (which tend to increase with the age of the pet) and the application of a co-payment deduction.

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<sup>1</sup> Calculated as £6,663.80 less vet fee excess £99 = £6,564.80. £6,564.80 less Annual Condition limit £2,000 = £4,564.80

So, I've concluded Red Sands acted fairly in applying a co-payment deduction of 20% to Ms W's claim.

While I've reached this conclusion, I've also considered the question of *how* the co-payment deduction is applied to a claim. Red Sands, in disagreeing with our investigator's view, say the policy terms and conditions make it clear the co-payment is deducted from the vet fee benefit – claim – limit. Which in the case of Ms W's policy is £2,000 - so, applying a 20% co-payment deduction means a deduction of £400 and a claim payment of £1,600.

Looking at the above references and the detailed policy document wording provided by Red Sands in support of their view, I agree this is what the policy documentation sets out.

However, I don't agree that applying this method of calculating the co-payment deduction is fair or reasonable. I've reached this conclusion for several reasons. First, in taking out the policy, Ms W selected an annual limit on claims of £2,000 (other levels of cover were available, with differing limits of £1,000 and £4,000). So, I think it reasonable for Ms W to have expected the maximum amount payable under a claim (for any one condition in any one year) would be £2,000. In practice, where a co-payment deduction is applied, the effective limit on any one claim is £1,600.

And the policy documents, including the policy schedule, specify a £2,000 limit. The way the co-payment would be deducted from the condition limit is mentioned in the policy booklet but isn't highlighted. And in any event I think it's misleading to say the limit is £2,000 in the circumstances where a co-payment deduction applies so that amount would never be paid.

I've also noted that applying the co-payment deduction to the claim limit isn't consistent with how the general policy excess is applied. The above breakdown of the settlement of Ms W's claim shows the policy excess of £99 isn't applied to the claim limit of £2000 – if it were, the net payment would be £1,501 (not £1,600).

Having reached this conclusion, I think it would be fair and reasonable to apply any co-payment deduction to the gross amount of a claim (along with the general policy excess) and then reduce the net sum down to the policy limit. Taking the breakdown above, this would mean deducting 20% of £6,663.80 (which is £1,332.76) and the £99 policy excess. Which would leave a net amount of £5,232.04. Applying the policy limit of £2,000 would mean reducing the net amount by £3,232.04.

So, I've concluded Red Sands should make an additional settlement of the claim of £400 to bring the net payment up to the policy limit of £2,000, which is the amount Ms W could reasonably have expected to be paid. They should also add interest to the additional payment, at a rate of 8% simple, from the date they made the settlement of £1,600 to the date they pay Ms W the additional £400.

Turning to the second issue, death of pet benefit, the second element of the above renewal notice statement makes it clear because Ms W's dog was over eight years of age at the time of its passing (the clinical notes indicate it was eight years and eight months old) then the death of pet benefit would only be paid if the cause of death was an accident. The IPID issued at renewal in 2022 contains a similar statement, that the policy will not pay for the death of any pet from illness once a dog reached the age of 8 years and over. Looking at the clinical notes of the dog's treatment and what happened as set out above, it seems clear the dog's condition was a direct result of it swallowing a foreign body, which then required treatment and surgery. I think swallowing a foreign body can reasonably be held to be an accident – it isn't an illness.

So, I've concluded it wasn't fair or reasonable for Red Sands to decline to make a payment for the death of Ms W's dog under the death of pet section of the policy.

Looking at the detailed terms and conditions, the appropriate percentage of the purchase price for a dog over eight years of age is 25%. The policy schedule records the purchase price of the dog as £350. Applying 25% to this figure gives a sum of £87.50. So, I've concluded Red Sands should pay Ms W £87.50 as a death of pet benefit. Red Sands should also add interest to the death of pet benefit of £87.50 at a rate of 8% simple, from the date they made the claim settlement of £1,600 to the date they pay Ms W the £87.50.

Ms W says she thought the policy should pay £750 under the death of pet benefit section. It's true the 2019 Policy Schedule issued when the policy was taken out records this sum under the Death of Pet heading. But, at that point, Ms W's dog was under eight years of age (it was born in 2014) so the Policy Schedule was correct. And the above reference from the August 2022 Renewal Notice makes it clear this no longer applies (the detailed policy terms and conditions refer to the 25% or purchase price calculation used for death of pet benefit where a dog is over eight years old).

The other issue in Ms W's complaint is that she wasn't aware of the co-payment deduction and non-payment of death of pet benefit until she received a bill for the remaining balance of the cost of treatment from her vet. And she had to contact Red Sands to ask why her claim had been settled at £1,600. While Red Sands have provided the above letter dated December 2022, addressed to Ms W, from what I've seen I don't doubt what Ms W has told us. And given the circumstances of the passing of her dog, I think this would have caused her distress at a difficult time. Taking the circumstances of the case into account, I think £100 compensation for distress and inconvenience would be fair and reasonable.

### **My final decision**

For the reasons set out above, my final decision is that I uphold Ms W's complaint. I require Red Sands Insurance Company (Europe) Limited to:

- Settle Ms W's claim at the claim limit under the policy (£2,000). That is, pay an additional £400 to the £1,600 they've already paid.
- Pay Ms W £87.50 in respect of death of pet benefit.
- Pay Ms W £100 for distress and inconvenience.

Red Sands Insurance Company (Europe) Limited should also add interest to the additional payment, of £400 and the death of pet benefit of £87.50 at a rate of 8% simple, from the date they made the settlement of £1,600 to the date they pay Ms W the £400 and £87.50.

Red Sands Insurance Company (Europe) Limited must pay the compensation within 28 days of the date on which we tell them Ms W accepts my final decision. If they pay later than this they must also pay interest on the compensation from the date of my final decision to the date of payment at 8% a year simple.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 8 January 2024.

Paul King  
**Ombudsman**