

The complaint

Mr H complains about the service provided by Aviva Insurance Limited (“Aviva”) when dealing with the renewal of his motor insurance policy.

What happened

Mr H took out car insurance with Aviva in 2019. He renewed his policy in September 2023 and paid approximately £1,000. His previous year’s premium was £758.00.

Unhappy, Mr H spoke to Aviva who told him insurance prices had increased across the industry. Mr H says he has been a loyal customer of Aviva for many years and has significant no claims history so he doesn’t understand why the premium has increased so much.

Mr H then received a letter saying he was being refunded approximately £85.00 since there was an error in Aviva’s calculation of the policy premium for the year 2022-2023. So Mr H says Aviva admit there was an issue with the calculation and as a result charged him more than it should have when his policy renewed.

Aviva offered Mr H £50 to apologise for the mistake. But Mr H says he’s concerned Aviva’s customers have been cheated of millions of pounds as a result of the error in calculating the premium.

Aviva said in January 2022 the Financial Conduct Authority (FCA) brought in new rules which stopped insurers offering better premiums to new customers over existing customers. And so it made some adjustments to its system in order to comply with those rules but realised the adjustments didn’t work as they were supposed to. And so it looked at the effected premiums and arranged to reimburse all those impacted customers.

Aviva said when it looked at Mr H’s premiums it discovered one renewal since January 2022 was effected – so if Mr H had gone online for a new quote it would have cost him £85 less. It apologised to Mr H for not making him aware of the situation sooner and offered him £50 for the distress and inconvenience caused. Mr H wasn’t satisfied with the response from Aviva – he wants a year’s insurance at no cost to him, in resolution of the complaint.

Mr H wasn’t happy so he referred his complaint to this service. One of our investigators looked into things for him. He said Aviva accept Mr H’s premium was calculated incorrectly and so refunded him the overpayment – and he thought this was fair. Our investigator said the £50 compensation offered was in line with what we would recommend; taking Mr H’s circumstances into account. He also recommended Aviva add 8% interest to the premium overpayment. Aviva agreed with the investigator’s view but Mr H didn’t respond.

So, the complaint was passed to me to decide.

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.

Having done so, while there has been an error, I think Aviva's offer is a fair way to resolve matters. I understand this is likely to come as a disappointment to Mr H but I hope my findings go some way to explain why I've reached this decision.

Pricing

The role of this service when looking at complaints about insurance pricing isn't to tell a business what it should charge or to determine a price for the insurance it offers. This is a commercial decision for the business to decide. But we can look to see whether we agree a consumer has been treated fairly – so, whether there is anything that demonstrates a consumer has been treated differently or less favourably. If we think someone has been treated unfairly we can set out what we think is right to address this unfairness.

Aviva has given us some information about how it calculated Mr H's premiums. That information is commercially sensitive so I can't share it with Mr H. But, having looked at it carefully, I'm satisfied Aviva has treated Mr H as it would other consumers in similar circumstances. So, although I'm not in a position to explain why the quote provided in September was much higher than in previous years, I'm satisfied Aviva dealt with Mr H fairly and it hasn't treated him differently to any other customer in the same circumstances.

FCA Pricing Rules

I can see Mr H is concerned about information provided by Aviva which he feels suggest he, and other customers, weren't treated fairly since the calculation of his premium in September 2022 was incorrect.

Aviva referred to the new rules for general insurance pricing introduced by the FCA in January 2022. They apply to motor and buildings insurance – and insurers need to make sure they comply with these rules when offering renewals. The rules aren't retrospective and only apply to renewals generated from 1 January 2022.

The rules were put in place to remove the risk of existing customers paying more than new customers. It places an obligation on insurers to make sure they charge renewing customers the same as new customers. The FCA refers to this as the equivalent new business price ("ENBP"). The ENBP needs to be reflective of the new business price the day the renewal invite is generated. The new pricing rules were put in place when Mr H was offered his renewal by Aviva, so it did need to follow these at the time. But, having looked through the information, I can't say Aviva acted unfairly here.

Aviva accept it got things wrong. It says, due to a system error, the premium quoted in September 2022 was incorrect. Aviva explained this was due to an error with the algorithm used to implement the new FCA rules. When it realised the error Aviva liaised with the FCA about how best to put things right. It then identified the effected customers and provided refunds accordingly. So it told Mr H he had overpaid for his premium and refunded him the overpayment. And I think that's fair and what I would have expected it to do.

Putting things right

Aviva refunded the overpayment for the premium. It offered Mr H £50 in resolution of the complaint and I think that's reasonable.

Our investigator recommended Aviva pay Mr H 8% simple interest on the amount refunded to him given he pays his policy premium annually. And I agree that's fair.

So I direct Aviva to;

- Pay Mr H £50 if it hasn't done so already
- Add 8% simple interest on the premium refund - from the date Mr H paid the impacted year's premium, to when the refund was paid

My final decision

So, my decision is that Aviva Insurance Limited should pay £50 to Mr H, if it hasn't done so already, together with 8% interest on the premium refund as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 11 June 2024.

Kiran Clair
Ombudsman