DRN-4833805

The complaint

Mr G has complained about the premium charged by Highway Insurance Company Limited for his home insurance policy.

What happened

The circumstances of this complaint aren't in dispute, so I'll summarise the main points:

- In 2021, Mr G took out a buildings and contents insurance policy through an independent intermediary I'll call R. It was underwritten by Highway. It renewed in 2022 at a cost of around £900.

- He got in touch with Highway later in 2022 about damage to his property. Highway accepted a claim for subsidence and began taking steps to deal with it.

- At the 2023 renewal, Highway said the cost of the home insurance policy would increase to nearly £6,000 – £4,000 for buildings and £2,000 for contents. Mr G said he was unable to shop around with other insurers for his buildings insurance due to the claim, so he renewed it with Highway. But he was able to move elsewhere for his contents insurance and found a policy for less than £500 – a significantly lower sum compared to the nearly £2,000 Highway would have charged.

- Mr G thought some increase in the cost of buildings insurance would have been reasonable to reflect general market increases and his open claim, but he thought the extent of the increase was excessive and unfair. So he complained.

- Highway said premiums had increased across the market for a variety of reasons, including more claims and greater claim costs. Mr G's policy specifically had also been impacted by the recent claim and changes to Highway's underwriting criteria, which meant it wouldn't offer policies to new customers in Mr G's postcode area.

- Our investigator thought the complaint should be upheld because she wasn't satisfied the increase had treated Mr G fairly. To put things right, she suggested Highway pay £800 compensation.

- Mr G agreed. Highway didn't. It thought it had provided this Service with sufficient evidence to show why the premium increased – and that it was in line with its pricing strategy, so Mr G was treated consistently with other customers. It also wasn't satisfied Mr G had taken steps to find a more competitive policy elsewhere. As an agreement couldn't be reached, the complaint 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.

I'll set out my findings in sub-sections for ease of reading.

Scope of complaint

- This complaint is solely about the premium charged in 2023. It's not about previous premiums or the subsidence claim, so I won't consider those things.

- Highway has commented on how R acted in its role as an independent intermediary. But that's not something I can consider here, because this complaint is only about Highway. Mr G is entitled to make a separate complaint about R. And if Highway has concerns about R, that's something for Highway to take up separately.

Highway's responsibilities

- Highway is responsible for setting the underlying premium. And, when it does so, it's required to treat Mr G fairly. It's not responsible for any changes to that premium made by R.

- In part, I think that means being able to explain a premium increase. However, I recognise premium setting can be very complex and there can often be many factors involved. So I wouldn't usually expect an insurer to explain each and every factor involved – usually it's sufficient to focus on the main reasons for an increase.

- Highway set the underlying 2023 buildings insurance premium at around £2,700, plus insurance premium tax. The remainder was commission paid to R. Taking the underlying buildings insurance premium set by Highway in isolation, this means the increase from the 2022 to 2023 renewal was in the order of 500%.

- In my view, that's a significant premium increase. As a result, I'd expect Highway to be able to clearly explain the main cause of it – and why it treated Mr G fairly.

What caused the premium increase?

- As Mr G is aware, much of the information Highway has provided to this Service is commercially sensitive as it relates to its pricing strategy. It wouldn't be appropriate for me to share that kind of information in this decision. As a result, I've deliberately summarised some of my reasoning to avoid sharing sensitive information. But I can assure both parties I've fully considered all the information that's been provided.

- Highway has explained a number of reasons for the increase, primarily:

    - General increases in response to increased claim volume, and higher costs of claims, in part related to increases in building costs and inflation.
    - The subsidence claim.
    - Other changes to the policy that increased the risk.
    - Changes to Highway's pricing strategy that mean its perception of the risk of providing insurance for buildings in Mr G's postcode area has increased, so the premium has increased to reflect that.

- The general increases would inevitably have increased the premium to an extent. That will likely have been the case for many policyholders, not just Mr G, and has also been the case for many buildings insurers, not just Highway. Increases of around 20-25% have been common across the market recently.

- Similarly, the subsidence claim would inevitably have increased the premium to a further extent – and that's common across the market. I note Highway has shown the premium to cover the subsidence risk makes up a relatively small proportion of the overall premium, so the impact of the claim is modest.

- Highway has noted other changes that it says increased the risk, particularly an increase in the number of adults at the property. Although it's not clear what impact that had on the premium – and I wouldn't have thought it was likely to be significant.

- Finally, Highway changed its pricing strategy and that had the most significant impact on the premium increase. I understand the risk rating applied to Mr G's postcode increased considerably, particularly for flood. But it's not clear what's driven such a change of position – especially as the location of Mr G's postcode doesn't seem to be one particularly at risk of flood.

Were the premium increases fair?

- I'm satisfied the first three points are fair reasons to increase the premium. And I think Mr G agrees with that too. Highway hasn't said how much of the increase they account for, but it seems to be a relatively small amount.

- The changes Highway made to its pricing strategy are the main reason for the increase. There are a number of relevant points when considering whether this treated Mr G fairly.

- Highway is entitled to take its own view on how risky something is to insure and what corresponding premium it will charge to take account of that risk and other factors, such as operating costs and profits. And it's entitled to change that view over time, as different information becomes available and factors relating to risk change.

- Here, Highway changed its pricing strategy for all policyholders – and applied that to Mr G's policy. So I'm satisfied he was treated consistently with other policyholders.

- Different insurers have different views on risk and pricing, which contributes to a competitive insurance market – and that can benefit policyholders. In most cases, if a policyholder considers one insurer too expensive, they can consider other insurers and move elsewhere if they wish. Mr G did this with his contents insurance and paid a much cheaper price with another insurer.

- However, there are situations where a policyholder can't consider other insurers as easily – and that can significantly limit their ability to move elsewhere. In some situations, a policyholder may effectively have no option but to stay with one insurer. As a result, that insurer's view on risk can be more impactful on the policyholder. One such situation is with subsidence claims.

- Once a property has suffered subsidence, it's usually significantly more difficult to insure on normal terms. Policyholders often find insurers don't offer cover at all. Or, if they do, only at a considerably increased premium. As a result, it can be very difficult for policyholders with subsidence claims to find buildings insurance which provides subsidence cover at an affordable price. This limitation is even more pronounced whilst the claim is ongoing.

- That's why the Association of British Insurers (ABI) provides guidance to insurers about this. In summary, if an insurer deals with a subsidence claim for a policyholder,

the guidance says it's usually good practice for the insurer to offer continuous buildings insurance, including subsidence cover. The aim of the guidance is to ensure policyholders in such circumstances can continue to access subsidence cover. That strongly suggests the cover should be offered at a reasonable price – otherwise the aim wouldn't be met, and the guidance would be redundant. But it notes that all decisions on pricing and terms and conditions remain at the discretion of individual insurers.

- Although Highway has questioned whether Mr G took steps to explore whether he could move insurers, I think that's misplaced. Firstly, because the position I've described above is well known. I doubt the ABI would have created this guidance unless the options for policyholders in Mr G's position were severely limited. Highway suggested there were options readily available to Mr G – but when our investigator asked for evidence, none was provided. And secondly, because this complaint is about Highway and how it treated Mr G. The onus is on Highway to show that it treated Mr G fairly with that premium increase. I'm not persuaded that arguing Mr G may have been able to move elsewhere explains how Highway treated him fairly.

- Were it not for the subsidence claim, Highway may not have offered Mr G a renewal due to its perception of an increased risk in the area he lives. But it kept in mind the core principle of the ABI guidance and offered continued cover, including subsidence. And the subsidence claim has only had a small impact on the premium increase, so I'm satisfied Highway hasn't treated the subsidence claim as a barrier to offering a reasonable price – and that's in keeping with the aim of the guidance.

- And, if there were no subsidence claim, Mr G would likely have been free to explore the market for building insurance, just as he did with contents, and there would have been no problem. But, because he was effectively restricted to Highway, its change of pricing strategy has had a significant impact on him – largely due to its perception of a considerably increased flood risk in his postcode area. It's not clear what supports this change of view, particularly given where he lives. And noting how restricted Mr G was at the renewal, I'd expect to see a clearer, more persuasive reason for such a substantial change of position from Highway.

- Overall, I think that means the coincidental timing of the change of pricing strategy and the subsidence claim is at the heart of this dispute. In my view, that leads to two competing key considerations:

    - On the one hand, Highway is entitled to change its pricing strategy. And it applied that strategy to Mr G's policy just as it would any other policyholder. Because it now sees the area in which Mr G lives as much riskier, that's led to a significant premium increase – which, in principle, seems reasonable.

    - On the other hand, Mr G was effectively restricted to renewing his policy with Highway at the 2023 renewal due to the subsidence claim. But the claim had little impact on the premium increase – it was Highway's broader view of risk that primarily drove the premium increase. And the usual competitive nature of the market wasn't available to Mr G, so he had little choice but to accept whatever view Highway took. That view hasn't been sufficiently explained and supported. This doesn't seem reasonable.

- I've thought carefully about how to reconcile these competing considerations. Having done so, I'm not persuaded Highway has treated Mr G fairly – although I recognise that's primarily the result of a very unusual set of circumstances. Given Mr G was

effectively restricted to accepting whatever premium increase Highway imposed, I'm not satisfied it's sufficiently explained how that increase treated him fairly.

Putting things right

- Mr G accepts there would always have been *some* premium increase, particularly due to the well known general market increases. He's not asked for his premium to remain the same, only for the scale of the increase to be less significant.

- Given my findings above, I think that's a reasonable position. It also takes into account that Highway is entitled to change its pricing strategy and has gone some way to explaining why that would have led to an increase.

- Highway has provided a lot of pricing information and engaged in a detailed pricing discussion with our investigator. It's been clear how complex price setting is and it's not my role to consider what the 'right' premium is anyway. So I won't seek to do that. I'll require Highway to compensate Mr G for treating him unfairly.

- Looking at the overall position, I'm satisfied the remedy suggested by our investigator is a fair one – to pay £800 compensation.

- Even with that payment, the 2023 premium would still be a considerable increase from 2022 – reflecting that an increase was inevitable for the reasons discussed. But it wouldn't be as severe as the one Mr G faced and would acknowledge that some of the reasoning for the increases hasn't been fully explained. In the particular circumstances of this case, I consider £800 compensation a pragmatic, proportionate, and fair and reasonable outcome.

My final decision

I uphold this complaint.

I require Highway Insurance Company Limited to pay £800 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 16 September 2024.

James Neville
Ombudsman