

The complaint

Mr N complains about the increase in premium for his motor insurance policy with Tesco Underwriting Limited (Tesco) following a non-fault accident.

References to Tesco in this decision include their agents.

What happened

Mr N took out a motor insurance policy with Tesco in June 2023 at an annual premium of £391.17. In April 2024 a third party vehicle ran into the back of Mr N's vehicle but drove off without stopping. Mr N noted the other vehicle's registration and reported the incident online to Tesco to make a claim. However, he was surprised to find the incident was recorded as a fault claim by Tesco. He contacted Tesco and was told this was standard practice in the insurance industry. But Mr N was unhappy he wasn't told this when he made his claim.

Mr N's policy with Tesco then came up for renewal. The premium increased from £391.17 the previous year to £1,017.61. This reflected Tesco recording the claim as an open, fault claim and reducing Mr N's No Claims Discount (NCD) from two years to zero, in line with the 'step back' provisions of the policy. While validating the claim, Tesco also found a previous (non-fault) claim recorded against Mr N in April 2023, which wasn't declared when he took out the policy. Tesco's underwriters allowed this to be added to the policy records, which led to a revised renewal premium of £1,089.67.

Mr N contacted Tesco again and was told he might get a discount if he renewed his policy. Mr N asked whether they could quantify any refund once the third party had accepted responsibility for the incident, but Tesco said they weren't able to do so. Mr N also asked Tesco if they could break down the increase in his premium between general inflation and the claim he'd made, but they weren't able to do so.

Mr N renewed his policy in June 2024, with new policy documents issued.

Unhappy at Tesco's response and the significant increase in his premium, Mr N complained.

Tesco didn't uphold the complaint. In their final response, they said all claims, whether fault or non-fault could affect a premium. If a claim was open it would be classified as fault, as the worst-case scenario, which was standard practice. Tesco also confirmed what he was told about being unable to give an indication of how much his premium would be when the claim was closed, as that would be calculated by their back-office team.

Mr N then complained to this Service. He had been forced to seek insurance elsewhere and required to declare an accident (a claim) that wasn't his fault. He was being invited to renew with Tesco in the contingency his claim was subsequently recorded as non-fault and might receive an [unspecified] refund. And his premium had increased significantly. He said Tesco should have told him the claim would be recorded as a fault claim and he wanted Tesco to offer a reasonable increase in premium, in line with general inflation.

Our investigator concluded Tesco didn't need to take any action. She noted since Mr N made his complaint, Tesco had closed the claim as non-fault (July 2024). Tesco recalculated the premium due at renewal and this meant a refund of £288.94. This was applied to the ten remaining instalments through which Mr N was paying for his policy (a reduction from £93.19 to £64.31 per month). His NCD was reinstated and increased to three years.

The investigator understood Mr N's concern at the claim initially being recorded as a fault claim, but this didn't necessarily assign blame. A fault claim would be recorded until investigations were complete and an accurate fault or non-fault outcome recorded. This usually depended on whether an insurer could recover all their costs from the third party and liability acknowledged and confirmed. The investigator concluded Tesco correctly recorded the claim initially as a fault claim. Tesco also acted correctly when they reduced Mr N's NCD from two years to zero in line with the 'step back' criteria set out in the policy booklet, as the claim was outstanding.

As part of their validation of Mr N's claim, Tesco also found a previous non-fault claim in April 2023, which Mr N hadn't disclosed when he took out the policy. Usually, such a non-disclosure would have consequences for a subsequent claim and a policy, as well as an impact on future policies. However, Tesco agreed it could be added and his current claim proceed. When both claims were considered and the premium recalculated, it generated an additional premium of £216.79 – but Tesco decided to write this off. This also meant Mr N's revised premium was lower than it otherwise would have been.

Tesco confirmed the renewal premium they quoted to Mr N was correct, including the fault claim. They said base price increases throughout the year had affected premiums. More generally, premiums had increased substantially in recent times. Based on this, the investigator was satisfied the renewal premium had been correctly calculated.

Mr N disagreed with the investigator's view and asked that an Ombudsman review the complaint. He maintained Tesco hadn't made him aware of the implications for his premium of making a claim, or that he would lose his NCD (temporarily) and he was significantly out of pocket as a result. Had he been aware of the process he would not have made a claim for the accident (which was no fault of his). Tesco hadn't quantified the increase in renewal premium and he was left in limbo with no NCD and as a result of the claim he'd had no ability to seek cover elsewhere.

He'd also been transparent with Tesco about any claims he'd made, though he had no way to check what he'd submitted to Tesco. He thought the previous non-fault claim irrelevant and should have been treated as an isolated incident. Nor had he been able to afford to have the damage to his vehicle repaired

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.

My role here is to decide whether Tesco have acted fairly towards Mr N. Having reviewed the evidence I don't think Tesco need to do anything in settlement of this complaint. I know this is likely to come as a disappointment to Mr N, but I hope my findings go some way in explaining why I've reached this decision. I've focused my comments on what I think is relevant. If I haven't commented on any specific point it's because I don't believe it's affected what I think is the right outcome.

A customer may expect a simple explanation for a price increase like Mr N experienced. But for an insurer, there may be many variables to consider when setting a premium – including

their own commercial requirements. And we generally take the view that, providing they treat people fairly - that is they treat customers with similar circumstances in the same way - insurers are entitled to charge what they feel they need to in order to cover a risk. I think it important to mention it's for a business to decide what risks they're prepared to cover and how much weight to attach to those risks - different insurers will apply different factors.

Turning to the specific circumstances in Mr N's case, there are several aspects to his complaint. First, that Tesco recorded the accident in April 2024 as a fault claim, when Mr N maintains he wasn't to blame for the incident. Nor was he told that making a claim would affect his premium. And that they reduced his NCD from two years to zero. These factors meant a significant increase in his premium when his policy came up for renewal shortly after the incident. Mr N is also unhappy Tesco wouldn't provide a detailed breakdown of the increase in premium and wouldn't say how much of a refund he might receive should the claim subsequently be deemed to be non-fault.

Other issues include the impact of the previous, non-declared claim, which Mr N feels isn't relevant. Mr N also says he hasn't been able to have the damage from the accident in April 2024 repaired.

On the issue of the increase in Mr N's premium when his policy came up for renewal in June 2024, I asked Tesco to provide detailed information on the breakdown of the increase. They responded to set out a range of factors that drove the increase (from a base price of £326 to the first renewal quote of £959):

- A significant worsening of Mr N's scores under Tesco's loyalty scheme, based on his shopping habits at Tesco.
- Inflation increases throughout the year.
- The open fault claim.
- An updated modelling approach used by Tesco with respect to the geographical location of Mr N.
- Significant updates to vehicle-level data in Tesco's risk model, significantly increasing Mr N's accidental damage and third party property damage peril premiums.

Of these factors, the most significant were the third and fifth elements. There were also a number of other changes to Tesco's risk model updates during the year. The non-disclosed claim was considered by Tesco when issuing a revised renewal quote of £1,027.

Tesco also say they treated Mr N in line with how they would have treated any other policy holder in the same circumstances when the open fault claim was subsequently closed as non-fault in July 2024. Which led to the refund set out above being issued to Mr N (as a result of adjusting the loadings from a fault claim to a non-fault claim)..

As well as these factors, the reduction in NCD from two years (applied when the policy was taken out in June 2023) to zero years (at renewal in June 2024) would also have increased the premium.

I've then looked at other evidence and information.

I can see Tesco said in their renewal invitation that Mr N should check the current cover still suited his needs and that he may want to compare other insurance policies with them, or in the market, considering cover, any excesses, and the quality of service, as well as the price. Section 6.5 of the Insurance Conduct of Business Sourcebook ("ICOBS") requires a

business to provide specific wording about the benefits of shopping around. So, I think Tesco have also acted in line with requirements set out under ICOBS.

The reference to base increases is also consistent with public coverage of the increase in the cost of motor insurance over the past year or so. For example, the Association of British Insurers (ABI) published an article in January 2024¹ stating costs were up 12% on the previous quarter (Q4 versus Q3 2023), driven by record increases to insurers to pay claims. The average premium for motor insurance between 1 October 2023 and 31 December 2023 (Q4) was £627 and the average premium was 34% higher compared to Q4 2022 (when it was £470). The largest single factor in increased costs was repair costs, which increased significantly.

On the issue of the reduction in NCD applied by Tesco, at the time of the accident in April 2024, Mr N had earned two years' NCD. But Mr N hadn't protected his NCD. *Section E – No claims discount and protection* contains the following statement:

"If a claim is made during the period of insurance, the discount will be reduced in accordance with our step back scale shown in the table below. You may also have to pay a higher excess on renewal, this will show on your schedule."

The table referred to in the statement sets out, for a 'Current NCD' of 0 – 2 years, that the 'NCD at renewal after 1 claim in current year' would be 0 years. That is, making a claim would reduce the NCD from (in Mr N's case) two years to zero years. As this is what Tesco applied at the renewal following the accident (claim) then I've concluded they correctly reduced Mr N's NCD in line with the policy terms.

As the claim was open at the point of renewal, then I think it reasonable for Tesco to apply the reduction, but to reinstate Mr N's NCD when the claim was closed as non-fault (the same section of the policy explicitly provides for this). That is, Mr N was put back into the position he was in before the accident (claim). And Tesco made a refund of premium based on the claim being closed as non-fault, which I also think fair and reasonable.

On the issue of whether Mr N was told by Tesco that making a claim would affect his premium (and his NCD) Tesco have provided a call recording between Mr N and them when his renewal invitation was issued. Mr N is concerned at the increase, but the call handler explains that until liability for the claim is accepted and confirmed by the third party insurer, they have to keep the claim open and (because they can't be certain of recovering any costs they might incur) record it as a fault claim.

While this doesn't cover what Mr N may have been told (or not told) about the impact of making a claim when he notified Tesco (online) about the accident in April 2024, the policy documents referred to above should have made it clear that, without NCD protection, a claim would affect the NCD entitlement and therefore affect any subsequent renewal premium. So, I'm not persuaded Mr N wouldn't reasonably have been aware that making a claim would affect his NCD (as the NCD title also indicates).

Nor do I think it unreasonable for him to think it likely that making a claim was also likely to affect his premium, as claims history is routinely used across the motor insurance industry as one of the risk factors affecting a policy and the price of a policy. Which is why insurers ask about claims history when consumers take out a policy.

¹ <https://www.abi.org.uk/news/news-articles/2024/1/motor-insurance-premiums-continue-to-rise-as-insurers-battle-costs/>

Turning to the issue of the additional claim in April 2023 which Mr N didn't declare when he took out the policy, I've considered what Mr N has said about it being irrelevant. However, I don't agree. When consumers take out insurance policies, they do so (and enter into a contract of insurance) based on the answers to questions and information provided, covering a range of subjects such as driver and vehicle details, cover required etc. Claims history is also a key piece of information insurers require to assess the risk presented by the consumer and consequently whether insurers are prepared to accept that risk and if so, the terms under which they offer cover.

In Mr N's case, *Section 2 Your contract of insurance* makes it clear that:

"It is your responsibility to ensure that all information given by you, or on your behalf, is true and accurate."

The same section also makes it clear that if there are any errors on the policy schedule, certificate of motor insurance or statement of fact, or the information is incorrect, Tesco can take one or more of several actions. These include updating the policy (and any change in premium), a claim or subsequent claim, may be refused or only a proportion paid, or a policy may be cancelled or made void.

The Statement of Fact document issued as part of Mr N's policy in June 2023 includes a statement that:

The driver has been involved in any accidents...within the last 5 years, regardless of fault or whether a claim was made or not."

The answer recorded is 'none' (both for Mr N and the named driver). So, there being a non-fault claim in April 2023 against Mr N meant he answered the question incorrectly (and didn't correct the answer when issued with the policy documents). Mr N says he was transparent with Tesco about any claims he'd made in the information he provided to Tesco and had no way to check what he'd submitted to Tesco. But the Statement of Fact document sent to him as part of the policy documents would have enabled him to do so.

While Tesco could have sought to apply one of the remedies available for what might be considered a misrepresentation by Mr N under the Consumer (information and disclosure) Requirements Act 2012 (CIDRA), they chose to update the policy (and premium) for the additional claim. That is their choice, and I can't conclude it was unfair or unreasonable. And having mistakenly not included the previous claim in the revised renewal, their choosing to write off what would otherwise be an additional £216.79 is similarly something I can't conclude unfair or unreasonable.

Mr N also says he hasn't been able to have the damage to his vehicle repaired. However, that wasn't part of his complaint to this Service (or Tesco's final response). It would be a matter for Mr N to determine whether or not to pursue a claim for the damage to his vehicle, though I appreciate his thinking that doing so might have compromised Tesco's decision to close the claim as non-fault. But that would also have depended on whether Tesco could have recovered any costs they might have incurred in repairing any damage to Mr N's vehicle from the third party (their insurer). As this is a hypothetical scenario, it's not something I can consider as part of this decision.

My final decision

For the reasons set out above, it's my final decision not to uphold Mr N's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or

reject my decision before 12 March 2025.

Paul King
Ombudsman