DRN-5189319

The complaint

Mr F complains about the premium set by Vitality Health Limited for his private medical insurance policy.

What happened

Mr F holds a private medical insurance policy with Vitality, which includes ‘optical, dental and audiological’ (‘ODA’) cover.

In April 2024, Vitality sent Mr F a policy renewal letter stating that his new total premium would be £51.48 per month. This was an increase of around 22% on his total premium of £42.16 per month the previous year. Vitality’s renewal letter said it had calculated the new premium using its ‘ABC’ pricing model, by applying a 1.45% increase on ‘Age’, a 24.7% increase on ‘Base Rate’ and a 4% discount on ‘Claims & Vitality status’. ‘Vitality status’ reflects points earned for tracking certain activities.

Unhappy with the new premium, Mr F complained to Vitality. Vitality referred to its ‘minimum premium’ terms and conditions and said Mr F’s minimum premium had increased from £38 to £44 for the 2024 renewal, which was then reflected in the ‘Base Rate’ change. It subsequently came to light that Vitality included the ODA cover within its ‘minimum premium’ check in 2022 and 2023 but these calculations had changed for the 2024 renewal.

Dissatisfied, Mr F brought the matter to the attention of our service. He said he’d worked hard to obtain his entitlement to a 4% Vitality status discount but Vitality’s pricing changes and, in particular, its removal of the ODA cover from the ‘minimum premium’ calculations meant the discount was of no benefit to him.

One of our investigators looked into what had happened and said he didn’t think Vitality had acted unfairly or unreasonably in the circumstances. Mr F didn’t agree with our investigator’s opinion so the complaint was referred to me as the final stage in our process.

I made my provisional decision about Mr F’s complaint earlier this month. In it, I said:

‘Industry rules set out by the regulator, the Financial Conduct Authority, say that information provided by a firm about its products should be clear, fair and not misleading. This includes information about the cost of a product. Industry rules also say that firms must support customer understanding. This includes ensuring that communications meet information needs, are likely to be understood and equip customers to make decisions that are effective, timely and properly informed. I’ve taken these rules into account when making my provisional decision.
The terms and conditions of Mr F’s policy say:

> ***‘How your premium can change***
>
> *…*
>
> *We call this our ABC pricing approach.*

We take the following into account when determining your renewal premium:

• your Age…
• the Base rate. This is the change in the cost of providing healthcare, taking into account the charges made by hospitals and other providers, as well as advances in areas such as medical technology and drugs.
• an adjustment for the Claims you have made, and your Vitality status. This is the part of your renewal price that you can control.

The increase in your renewal premium will be the sum of these three items (A+B+C)

…

*'**Minimum premium***

A minimum premium applies…which can vary from time to time. If you move house or remove a person from cover during the plan year then your premium may drop below the minimum we allow. If this happens, your premium will be adjusted back up to the minimum level. This can either happen at the time of the change or at your following annual renewal date. If we change our minimum premium amount, we will only apply the change with effect from your following annual renewal date.

Any adjustments for the minimum premium that is made at your annual renewal date will be reflected in a change to your base rate increase.'

An insurer is entitled to decide the cost of the insurance it provides, taking into account an assessment of the level of risk it is covering as well as factors such as those set out in Vitality's 'ABC' pricing approach. The price of an insurance policy isn't generally something which our service can intervene in as long as an insurer can demonstrate that it is treating customers with the same circumstances in the same way.

Vitality has provided confidential underwriting information which I'm satisfied demonstrates that any customers in Mr F's situation would have received the same price increase at the 2024 renewal. So, I don't think Vitality has treated Mr F any differently from anyone else in the same position.

While I'm afraid can't share this sensitive commercial information with Mr F, I want to assure him that I've carefully considered it and I'm satisfied that Vitality hasn't treated him unfairly when increasing the overall price of his insurance policy at the 2024 renewal.

The fact that some of Vitality's agents may have commented on the amount of the % increase doesn't mean that the % increase is unfair. And I don't agree that Mr F would have paid the same amount for his policy overall even if he wasn't eligible for a 4% discount. Vitality's renewal letter shows that Mr F's total premium would have increased by around 26.1% without the discount.

However, while the Financial Ombudsman Service's role isn't to tell firms how much they should charge for their products, I don't think Vitality gave Mr F clear information about the changes it made to the 'minimum premium' calculations in 2024, which impacted the amount of the total premium Mr F paid.

In 2022, Vitality wrote to Mr F about changes it was making to the dental cover previously offered. Vitality said it was introducing the ODA cover as a replacement and there were no changes to the cost of the option. In 2022, and at the 2023 policy renewal, the ODA cover *premium was added to the PMI premium before Vitality applied its 'minimum premium' calculations.*

However, at the 2024 renewal, Vitality changed its 'minimum premium' calculations to exclude the ODA cover. Vitality instead applied the 'minimum premium' check to the private medical insurance premium only and, after uplifting this to meet the new minimum premium, added the ODA cover element of the premium separately. This information isn't mentioned in Vitality's 2024 renewal letter.

The effect of these changes was that Mr F's premium increase was higher than it would have been under the old calculations, which in turn meant that his 4% Vitality status discount was of no benefit to him at the 2024 renewal.

Vitality has explained its reasons for changing the 'minimum premium' calculations. In short, Vitality says that customers with ODA cover above the minimum premium level were effectively subsiding the cost for other customers.

While I don't think Vitality's decision to change the minimum premium calculations was unfair, I don't think Vitality clearly explained to Mr F that it could make the unilateral decision to remove elements of the policy from the minimum premium calculations. Vitality also didn't clearly explain to Mr F that changing the minimum premium calculations would result in an increase to Mr F's premium over and above what is set out in the 'ABC' pricing approach and/or affect his ability to obtain value from his accrued 'Vitality status' discount in the 2024 policy year.

So, I don't think Vitality provided Mr F with information that was clear, fair and not misleading.

As I've already explained, I don't have the power to do what Mr F is asking and set a maximum % by which his premium should increase. Mr F is under no obligation to continue to renew his policy with Vitality annually and has the option to 'shop around' with other providers of private medical insurance if he wishes. However, I'm satisfied that Vitality's failure to make Mr F aware of the changes to the 'minimum premium' calculations has caused Mr F worry and concern about the increasing costs of his insurance, as well as frustration due the explanations given to him by Vitality. I think it's clear that Mr F has spent time and effort in attempting to understand Vitality's position and in seeking to explain the effect the 2024 calculation changes have had on his discount.

Overall, I think it would be fair and reasonable in the circumstances for Vitality to pay £300 compensation to Mr F for the impact of the situation on him.'

Mr F accepted my provisional decision. Vitality didn't and, in summary, said:

- its policy terms and conditions clearly state that the minimum premium can change, Vitality doesn't need to explain how it changes its pricing and sensitive commercial information regarding its pricing shouldn't be disclosed to its policyholders;
- 'Vitality status' isn't a discount, it's a reduction in a policyholder's increase and, had Mr F not engaged, he would have seen a higher increase in his 2024 renewal premium;
- Mr F's contact with it about this matter was minimal and an award of £300 compensation is excessive, disproportionate and out of line with previous decisions made by our service.

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've carefully thought about Vitality's additional submissions but I won't be changing my provisional decision.

I accept the policy terms and conditions say the 'minimum premium' can vary but what happened in this case was that the 'minimum premium' calculations changed from the calculations applied in previous years. This is what I think Vitality ought to have made clear to Mr F, so that Mr F could understand the renewal price information and make an effective and properly informed decision about whether to renew the policy. This doesn't mean that Vitality needed to disclose sensitive commercial information to Mr F. But I think it would have been reasonable for Vitality to have explained to Mr F in general, high-level terms that the 'minimum premium' calculations were changing and the ODA cover premium was being removed from the 'minimum premium' check.

Regardless of whether 'Vitality status' is described as a discount or a reduction in increase, I'm satisfied that Mr F's overall premium increase was higher because of the removal of the ODA cover from the 'minimum premium' check than it would have been in previous years. While a reduction in increase of 4% was applied to Mr F's total premium at the 2024 renewal, the effect of the removal of the ODA cover from the 'minimum premium' check was that Mr F didn't obtain the same benefit from his 'Vitality status' as he would have done in previous years before the calculations changed.

Our awards of compensation are based on the circumstances of the individual case and not by comparison with awards made in other cases. Our published guidance on the payment of compensation for distress and inconvenience states that an award of up to £300 is appropriate where *'an error has caused the consumer more than the levels of frustration and annoyance you might reasonably expect from day-to-day life…requiring a reasonable amount of effort to sort out'*. I'm satisfied this is what happened here.

So, I think an award of £300 compensation is fair and reasonable in the circumstances for the impact of what happened on Mr F.

Putting things right

Vitality Health Limited needs to put things right by paying Mr F £300 compensation for the distress and inconvenience he experienced.

Vitality Health Limited must pay the compensation within 28 days of the date on which we tell it Mr F accepts my final decision. If it pays later than this it must also pay interest on the compensation from the deadline date for settlement to the date of payment at 8% a year simple.

My final decision

I'm upholding Mr F's complaint about Vitality Health Limited and I direct it to put things right in the way I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 6 January 2025.

Leah Nagle
Ombudsman