

The complaint

Mr F's complaint is about the handling of a claim under his pet insurance policy with U K Insurance Limited trading as Direct Line ("UKI").

What happened

In March 2024, Mr F's dog had to undergo some tests. The vet had carried out cytology tests, which cost £181.92, and a biopsy, which cost £18.96. Mr F's vet therefore submitted a claim for the total costs of £200.88.

Mr F's policy provides that the maximum payment for cytology is £75 and there is also an excess payment due for any successful claim of £95. Mr F says he was therefore expecting a claim settlement of £93.96 (i.e. £75 for the cytology and £18.96 for the biopsy).

However, UKI said there was no payment due, as it said Mr F could only claim £75 for cytology and £18.96 for the biopsy, which meant the claim was for a total of £93.96 which was less than the policy excess.

Mr F is unhappy with that and so referred the complaint to this service.

One of our Investigators looked into the matter. He recommended the complaint be upheld, as he did not consider it reasonable to calculate the claim value in the way UKI had done. The Investigators said that our approach is that it is not fair to deduct the excess from the policy limit but should be deducted from the total claim value first and then any policy limit applied. The Investigator also recommended that UKI pay Mr F £100 compensation for the trouble caused by the unreasonable handling of his claim.

UKI does not accept the Investigator's assessment, so the matter has been referred to me.

UKI says that it accepts that the excess should not be deducted from the policy claim limit but the cytology limit is an "*inner limit*". UKI says its process is that it would deduct excluded items first and then inner limits such as the cytology limit and then the excess, before then applying any overall vet fee policy limit. It says this is the only fair method.

UKI also says that there is no rationale for deducting the excess from the cytology costs; and if the excess were applied to the biopsy fee of £18.86 first then a different outcome is reached. So the method of calculation proposed by the Investigator results in anomalies and uncertainty; and is contrary to the policy terms that made it clear the excess will be deducted from the claim settlement.

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.

Mr F's policy provides cover for vets' fees subject to various terms and conditions. This includes a limit on the amount that will be paid for cytology:

"Up to £75 towards cytology fees including any handling and interpretation fees."

And a general policy excess as follows:

"Excess

The part of the claim you must pay for each separate condition.

The excess is applied once to each separate condition and will be taken from the claims settlement. Your excess amount is shown on your schedule."

I understand the two procedures claimed for were related to the same condition, so it is agreed that only one excess is payable.

I can see the argument UKI has made that applying the excess to the biopsy part of the claim first would result in a different settlement amount. This is because if the excess is applied to the cytology costs first, it means there would be £75 payable for cytology and £18.96 payable for the biopsy. But if the excess is applied to the biopsy costs first there'd be £76.04 left of the excess to take from the cytology costs ($£181.92 - £76.04 = £105.88$) and then applying the cytology limit means there would be £75 payable.

UKI says this therefore means the only fair way to provide certainty is to limit Mr F's claim for the cytology to the inner cytology limit first and then apply the excess to the total that's left (*i.e.* £75 plus £18.96). It also says this is in line with the term above, which says the excess will be taken from the claims settlement.

However, I do not agree that this is fair or reasonable and I do not think it is in line with any reasonable expectation of the policy. I will explain why.

An insurance excess is the first uninsured part of any loss. The loss to Mr F here is the cost of both the biopsy and the cytology. The loss and the claim being made is therefore for £200.88. I am not persuaded by any argument that the "*inner*" limit for cytology means that Mr F's claim for cytology can only be £75 and that the excess should be applied after that. To do so would not be in line with general insurance practice and is not fair or reasonable.

I acknowledge that applying the excess to the biopsy costs first would result in a different outcome, but UKI did not propose any payment to Mr F, which I do not consider fair.

Having considered everything, I agree with the Investigator that the fair and reasonable approach is to deduct the excess to the total claim of £200.88, meaning the claim is now worth £105.88, and to deem that of that total, £181.92 is for the cytology, so there is £75 to pay for the cytology and £18.96 to pay for the biopsy. I therefore consider UKI should pay this amount to Mr F in settlement of the claim.

I do not know if Mr F has already paid the vet's fees. If he has then interest should be added to the settlement at our usual rate.

I also agree with the Investigator that an additional sum of £100 should be paid as compensation for the trouble caused by its unreasonable handling of the claim.

My final decision

I uphold this complaint and require U K Insurance Limited trading as Direct Line to do the following:

1. Pay Mr F the sum of £93.96 (i.e. £75 plus £18.96) in respect of his claim. If Mr F has already paid the fees then UKI should also pay interest on this sum at 8% simple per annum from the date Mr F paid the fees to the date of reimbursement; and
2. pay Mr F the sum of £100 compensation for the distress and inconvenience caused by its handling of the matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 15 January 2025.

Harriet McCarthy
Ombudsman