Financial Ombudsman Service

complaint

Mr R1 complains on behalf of his parents Mr and Mrs R that Lloyds Bank General Insurance Limited mis-sold them a home insurance policy which was excessively priced and had unnecessary cover.

background

In 2009 Mr and Mrs R took out a home insurance policy at their local bank branch. The policy continued, with the premium increasing by 72% by the third renewal in 2012. Mr R1 has explained that his parents are elderly and vulnerable. He's advised us that his father in particular has suffered from ill health from 2012 which has worsened over the years. As a result, he hasn't been able to look after the family finances. His parents didn't have access to the internet. It was only in 2016 that his mother was able to express that she was concerned about the very high cost of the policy. The 2016 renewal price was £1,086.77.

Mr R1 was able to find similar insurance for them online for a very much lower price. In particular when he enquired about the high cost of the policy with Lloyds, he was told that it included cover for "*high risk DIY*". He explained that it would have been obvious when selling the policy that neither of his parents were in a position to do DIY.

Lloyds said that the policy was sold in the bank branch in 2009 and there were no records of the sale. However it said the policy was correctly priced and that it had invited renewal each year. It wasn't aware of Mr R's illness until 2016. It further explained that the "*high risk DIY*" cover was in fact cover for extended accidental damage.

On referral to this service Lloyds agreed on a goodwill basis to refund some premiums plus interest for the policy years 2013 to 2015 inclusive. This was based on refunding 100% of the amounts paid in each of those years in excess of the 2012 premium (£946.42). Our adjudicator asked Lloyds to pay £200 compensation. It agreed to this. The final offer was then a refund of £467.15 plus net interest of £106.65, with the aforesaid compensation.

Mr R1 rejected the offer. He felt that his parents had been sold unnecessary cover and had been charged excessive premiums. He also felt that Lloyds shouldn't have used introductory discounts to draw his parent's into a policy. He has clarified with me that he is seeking a payment of at least £5,000, based on what he considers to have been a reasonable price for a home insurance policy against the amount charged by Lloyds.

The matter has been referred to me for consideration.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Firstly the fact that Mr R1 has been able to find much cheaper cover for his parents doesn't mean that Lloyds has overcharged them. Insurers can charge very different prices for what seems to be very similar cover. It's up to the insurer how much risk it wants to attach to the cover it provides. In Mr and Mrs R's case they were sold a five star policy. It had unlimited cover for both contents and buildings. Although the actual premium is based on the risk address – the likely value of the contents and rebuild cost. Unlimited cover does save the customer from the risk of being underinsured, and not having a claim paid in full. Additionally the policy had extended accidental damage cover. This wasn't "*high risk DIY*" cover. It would have covered DIY accidents but also any accidental damage to either contents or the building.

We don't generally tell insurers what they can charge in what is a competitive market. But we are concerned to see that they charge each customer fairly within their own pricing criteria. So any customer in a similar position is charged a price within a reasonable range for the same risk criteria. Taking into account the nature of the policy (as I've set out above) and the information given to us by Lloyd's, I am satisfied that it has charged for the policy fairly within its own pricing criteria for the risk presented.

Mr R1 believes the policy was missold to his parents. Unfortunately as the sale of the policy goes back to 2009 there are no records of the actual sale in the bank. But I think it fair to assume that Mr and Mrs R chose the policy they wanted. I don't think it would be fair to assume that the accidental damage cover was unnecessary. So I don't think the policy sold to them was inappropriate.

The policy did go up in price quite a lot – by the 2012 renewal it had increased by 72%. But the policy did have an introductory discount. And despite Mr R1's misgivings about it, we don't think such discounts are unfair. The policy may well initially be priced below cost price and it's fair that the insurer will seek to move the policy to a more realistic economic price over the first few years.

However, an insurer's ability to change the price does of course depend on the consumer being able to check that the premiums are reasonable and affordable. And unfortunately in Mr and Mrs R's case, they weren't able to check their premiums after 2012. And, whilst Lloyds couldn't be expected to know about Mr R's health, it would have known his age and that customers like him are less likely to engage with it over the premium (they can be described as "inert" customers). So I think that in Mr and Mrs R's case, given they couldn't properly engage and that Lloyds should have taken greater care to ensure that they could, it's fair to peg the policy back to the 2012 premium. So I think that Lloyds should refund all the amounts charged over and above the 2012 price up to and including the 2015 renewal, plus interest to date.

I understand Lloyds' point that it's only recently that the regulations have changed so that the insurer has to tell the customer at the fourth renewal of the likely availability of policies elsewhere. But the regulations have always required the insurer to treat its customers fairly. And if a policyholder doesn't engage with it after several years it would be fair to expect the insurer to ensure the customer is aware of their right to consider whether the policy/premium is still appropriate. And to ensure that more vulnerable customers who are less likely to engage are catered for.

In this case our adjudicator proposed that Lloyds pay £200 compensation. Lloyds has agreed to this, although on a goodwill basis. I think in the particular circumstances of this case, that it is fair to ask it to make that payment.

my final decision

Lloyds Bank General Insurance Limited has already made an offer to resolve this complaint and I think this offer is fair in all the circumstances.

So my decision is that Lloyds Bank General Insurance Limited should:

- pay to Mr and Mrs R a total of £467.15 by way of refund of premiums.

- add interest to the refunded portion of each instalment from the date each was paid until the date this award is paid at 8% simple per year*

- pay Mr and Mrs R £200 compensation.

*Lloyds is required by HM Revenue and Customs to deduct tax from any interest paid. Should Mr and Mrs R, or Mr R1 on their behalf, request it, Lloyds should provide them with a certificate showing how much tax has been taken off so that, if appropriate, they can reclaim it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R1 on behalf of Mr and Mrs R to accept or reject my decision before 26 August 2019.

Ray Lawley
ombudsman