complaint

Mr and Mrs H complain that Lloyds Bank General Insurance Limited ("Lloyds") sold them unsuitable buildings and contents insurance and that it overcharged them for it for a number of years.

background

Mr and Mrs H took out home insurance (building and contents) with Lloyds in January 2000. When the policy was sold the buildings cover was unlimited cover, however the contents cover was £50,000. This was increased to unlimited at the renewal of 2008 and Lloyds told us this was a standard change throughout all policies of this type.

Mr and Mrs H's main concern is that they were mis-sold the insurance policy. They say they didn't need unlimited cover. They feel they were overcharged because of this, and since cancelling the policy in 2016 have been offered much cheaper policies through different insurers. They complained to Lloyds about this in 2016. Lloyds didn't think the policy had been mis-sold or that it had overcharged them.

Unhappy with Lloyds' response, Mr and Mrs H referred their complaint to this service. Since then, Lloyds made an offer to settle Mr and Mrs H's complaint. Following some further discussion it made a revised offer and overall our adjudicator thought that the latest offer was fair. Lloyds has also offered a further £200 as compensation for the trouble and upset Mr and Mrs H have been caused. In reaching their view our adjudicator didn't think there was any evidence that the policy had been mis-sold – and that the cover provided was suitable for Mr and Mrs H's needs.

Mr and Mrs H disagreed. They thought the offer was inadequate considering they were mis-sold the policy and given the price they were ultimately able to obtain cover for.

The complaint has been passed to me for a decision.

my findings

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

mis-sale

Mr and Mrs H have complained that the policy was mis-sold. They say that Lloyds provided them with cover that they didn't need – specifically an unlimited sum assured. Lloyds explained that when offering an unlimited sum assured it makes its own assessment about the insurance risk and calculates the premium based on that risk. The information it uses relates specifically to the insured property, so the price isn't based on an unlimited sum. This means Mr and Mrs H will only have been charged for the amount that Lloyds estimated it would cost to rebuild their home in the event of a total loss.

The benefit of this type of policy, compared to one where the customer chooses how much cover they think they need, is that there isn't a risk they'll be underinsured, should they need to make a claim. So I can't agree that having an unlimited sum assured meant the policy was unsuitable.

Lloyds had an obligation to give Mr and Mrs H clear, fair and not misleading information about the policy they were buying. Mr and Mrs H say they were never informed of the cost of the policy, and that it cost more than double a normal insurance policy.

Lloyds hasn't been able to produce any of the documents related to the sale of their policy. So I don't know exactly what Mr and Mrs H were told about the cost of their policy. I don't think this is unreasonable considering the length of time since the sale. But I think it's unlikely they would've taken out the policy without having an idea of how much they were paying for it. And they would have been sent paperwork once the policy had started that included information about the cost. If this was different to what they'd been told when the agreed to take out the insurance, it's likely they would have questioned this at the time.

I'm not persuaded, based on what I've seen, that Lloyds failed to give information to Mr and Mrs H regarding the cost of the insurance, and this led them to take the policy when they wouldn't otherwise have done. Mr and Mrs H think they should've been advised of alternative policies on the market. But Lloyds didn't have to tell them about this. It only had to give suitable advice about the policies it offered and clear information about what it was recommending.

I appreciate the strength of feeling Mr and Mrs H have about this policy being unsuitable. But based on what I've seen I cannot conclude that this policy was unsuitable for Mr and Mrs H.

policy premiums

If I find that Lloyds hasn't treated Mr and Mrs H fairly, I will look to see what compensation would be fair and in this case whether I think what Lloyds has offered is fair.

When Mr and Mrs H took out their policy in 2000, it cost £296.30 for the year. Often new policies will have introductory discounts. This isn't uncommon and policies may well initially be priced lower to attract new customers. I don't think it's unfair for an insurer to seek to recoup that cost over the first few years.

I can see that Mr and Mrs H's premium continued to increase each year and they didn't engage with Lloyds about their premium until 2016.

Mr and Mrs H say they trusted Lloyds so assumed they were paying competitively priced premiums for their home insurance. And it wasn't until 2016 that they contacted Lloyds discuss their premium that the cost was challenged. Their policy was cancelled shortly after.

If Lloyds increased the price just because Mr and Mrs H didn't engage at each renewal, that wouldn't be fair. Lloyds has offered to refund some of the costs of the insurance premiums from 2009 onwards.

Lloyds has offered to keep Mr and Mrs H's premiums from 2009 at the same amount they were charged in 2008 – so £564.59. So it will refund the difference on the payments they made on their premiums from 2009 until 2016 when the policy was cancelled. For example, Mr and Mrs H's premium in 2009 was £668.50. Lloyds has offered to refund the difference between the 2009 and 2008 premiums, plus interest. And it's done this for every yearly premium after 2008. Lloyds' total offer is £2,566.70 plus interest of 8% for the time they were out of pocket.

Mr and Mrs H say they were overcharged for most of the time they held their policy, and are therefore owed a lot more than this in compensation. In particular they have pointed to the cheaper quotes with alternative providers they were offered from 2016 onwards. I've thought about this. But these policies would not have been identical and so can't be compared like for like. Along with a difference in premium, there also would've been differences in cover and difference excesses. I must also take into account that as these quotes were for new policies being set up in 2016 Mr and Mrs H possibly received a new customer discount on the premium cost as well. So it wouldn't be fair for Lloyds to use this different policy cost when working out its offer.

Having considered Lloyds' offer, I think it's fair. It makes sure Mr and Mrs H haven't lost out if Lloyds did increase the price just because they didn't engage at each renewal

I also think Lloyds' additional compensation offer of £200, that it made later on for the trouble caused to Mr and Mrs H, is fair.

my final decision

For the reasons given above, Lloyds Bank General Insurance Limited offer to refund some of the costs of Mr and Mrs H's policy from 2009 is fair.

Lloyds Bank General Insurance Limited additional compensation offer of £200 for the trouble caused to Mr and Mrs H is also fair.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs H to accept or reject my decision before 8 November 2019.

Gemma Farrell
ombudsman