DRN-4514151

The complaint

Mrs S complains about the price quoted by U K Insurance Limited ("UKI") to renew her motor insurance policy.

Mrs S's complaint has been brought by a representative – who I'll refer to as Mr S.

What happened

Mrs S took out a policy where the premium is made up of two components, a fixed cost element and a variable 'miles' element. Mrs S received a quote to renew her policy and she says the miles element was significantly higher than what she'd paid the previous year. Mrs S says she was informed by UKI the reason for this was because the price when she first took out the policy was kept deliberately low. And in order to shield new customers from price increases, UKI increase the price for existing customers at renewal. Mrs S says this practice goes against FCA pricing rules.

UKI responded and explained there's two parts to Mrs S's premium. They explained in relation to the upfront fixed cost, they now had the data to show Mrs S was less likely to have an accident while parked up, so they've lowered it to reflect that. They said, this does mean they've had to raise the per-mile rate to remain sustainable. They said, on reviewing the renewal, they now had more information on Mrs S's "*ID score*" which has had a large impact on the price. They said the renewal quote also has a higher level of cover (with commuting use added). They said these factors, together with the general cost of repairs and car parts across the industry have had an affect on the price. In relation to Mrs S's concern about UKI not following FCA pricing rules, they explained Mrs S had misinterpreted what they'd said. They explained their reference to shielding customers from rating changes was said in the context that customers are protected from any rating changes being applied during the course of a policy term – but they will apply these when providing a quote.

Our investigator looked into things for Mrs S. He upheld the complaint as he felt UKI hadn't provided our service with sufficient information to show no error had been made when calculating Mrs S's renewal – so he recommended they pay Mrs S £300. UKI disagreed so the matter has come to me for a decision.

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.

Having done so, I've decided to uphold the complaint. And, I think the investigator's recommendation is a fair way to resolve matters.

Pricing

The role of this service when looking at complaints about insurance pricing isn't to tell a business what they should charge or to determine a price for the insurance they offer. This is a commercial judgement and for them to decide. But we can look to see whether we agree a consumer has been treated fairly – so is there anything which demonstrates they've been treated differently or less favourably. If we think someone has been treated unfairly, we can set out what we think is right to address this unfairness.

The policy booklet describes how the premium works. It says, over the course of the policy, Mrs S will pay a fixed premium which covers her car while it's parked. It says Mrs S will also pay a 'miles' premium – this being a per-mile rate multiplied by the number of miles she drives. The way this part of the premium works is that UKI will send out a device which is installed in the insured car, and this allows them to track how many miles are being driven and then charge accordingly.

I can see Mrs S's premium in 2022 was made up of an 'upfront fixed cost' of £260.45 and a 'Per-mile rate' of 3.8p a mile. Mrs S then receives a renewal price quoting an 'upfront fixed cost' of £264.90 and a 'Per-mile rate' of 16.1p. Mrs S doesn't have any concerns about the price increase in relation to the fixed cost, but she's concerned about the per-mile rate being more than 320% higher than the year before. So, I understand why Mrs S is concerned about the price increase.

When our service looks at complaints about pricing, we'll ask for information from a business to demonstrate why and how a price has increased. What information is considered reasonable will depend on a case by case basis, but insurers generally will provide confidential business sensitive information to explain how a customer's price has been calculated. This might involve evidence of rating factors and loading tables to show, more specifically, which loadings have increased to justify the price increase. Generally, and particularly in cases where the price has increased significantly, it's this level of detail that allows our service to check the information and provide a customer with reassurance that there hasn't been a mistake in the calculation and that they've been treated fairly and no different to any other customer in the same circumstances.

UKI explain one of the reasons the price increased at renewal was because the panel of insurers they work with has changed. They say the renewal quote was provided by UKI, but Mrs S was with a different insurer the previous year. They say UKI have an entirely different pricing model to the previous insurer. I agree 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. That's not to say an insurer offering a higher premium has made an error compared to an insurer offering a cheaper premium – but rather, it reflects the different approach they've decided to take to risk. Different insurers will have different rating factors and loadings, so it's not unreasonable, and completely understandable, there will be differences in the price of a policy. But that alone, doesn't provide me with sufficient evidence to demonstrate that, in this case, Mrs S's price was calculated fairly.

I can see, in relation to the rating criteria used to calculate the renewal, UKI refer to Mrs S's car being rated in insurance group 15. They say this is in line with the insurance groups which are now publicly available on a price comparison site. I've checked this, and I agree Mrs S's car has been grouped in line with this.

But while this shows Mrs S's car was categorised correctly in relation to its insurance group, it doesn't demonstrate there's been no mistake when pricing the policy at renewal. For this, and given the facts of this case, I would need to see evidence of the rating factors used and the loadings applied when calculating the per-mile rate. I have carefully considered all points made by UKI, but in the circumstances of this case, I'm not persuaded there's sufficient evidence to satisfy me the increase is fair.

I do wish to make it clear I'm not saying there has been an error in the pricing calculation. Instead, the reason I'm upholding Mrs S's complaint is, given the significant increase in the per-mile rate, I would need to see evidence and a clear explanation showing why and how the price increased as it did for Mrs S's renewal – and in this case, this information hasn't been provided in a way which would allow me to reassure Mrs S that there's been no error here. So, taking this into account, I understand why Mrs S was left upset, frustrated and confused by the price increase – so I've thought about the impact on Mrs S and how UKI should put this right.

Mrs S cancelled her policy as a result of the price increase. It's clear this decision was taken very reluctantly, and Mr S, when contacting UKI to cancel the policy, even describes it as a "*real shame*". It's clear Mrs S was in favour of a policy which provides innovation to the standard industry practice of providing cover and bases part of the premium on how much a customer drives their car. Mr S explains it's very unfortunate he had to take the step of cancelling but felt it necessary as he didn't think Mrs S was being treated fairly. So with this in mind, I'm satisfied it's caused Mrs S significant upset and frustration that our service isn't able to reassure her the price was calculated correctly. So, taking into account the specific circumstances of this case, and the impact on Mrs S, I think compensation of £300 is fair and reasonable in the circumstances.

FCA pricing rules

I can see Mrs S is concerned about comments made by UKI which she feels suggest she, as an existing customer at renewal, wasn't treated the same as a new business customer when UKI calculated a price for her policy.

The rules for general insurance pricing which Mrs S refers to were introduced by the Financial Conduct Authority ("FCA") in January 2022. They apply to motor and buildings insurance only and insurers need to make sure they comply with these rules when offering renewals. The rules aren't retrospective and only apply to renewals generated from 1 January 2022. The rules were put in place to remove the risk of existing customers paying more than new customers. It places an obligation on insurers to make sure they charge renewing customers the same as new customers. The FCA refers to this as the equivalent new business price ("ENBP").

The ENBP needs to be reflective of the new business price the day the renewal invite is generated. It is accepted the view of risk can change and the rules don't mean all insurers need to charge the same price and the FCA accepts that policies bought through different brands will likely offer similar cover at different prices. It also understands that different sales channels for the same brand might result in different prices and it accepts this is fair. The new pricing rules were in place when Mrs S was offered her renewal by UKI, so they did need to follow these at the time.

I understand Mrs S is concerned about a comment made by UKI when Mr S queried the price increase. UKI said, "*…over the course of a policy term, there will be underwriting and rating updates…that come in regularly. We are able to shield your policy from these changes during the year but unfortunately at renewal, we do need to take the new data into account.*" Mrs S believes this suggests UKI penalise existing customers at renewal by shielding new business customers from price increases. I acknowledge Mrs S's point here, but I don't agree that is what UKI are saying here. They appear to be suggesting that, while rating factors change regularly, they'll only apply these when pricing a policy – whether that's for an existing customer at renewal or a new business customer. They're suggesting here that even if rating factors change, they won't apply any amended ratings or loadings to a policy mid-term during the policy year. This isn't an unusual or uncommon approach and is general industry practice.

UKI say they offer the same price to a renewing customer as they would a new customer. They say all quotes they offer, whether renewal or new business customer, are priced against the models in place at that time. In support of this, UKI have carried out a pricing calculation based on Mrs S's details as a renewing customer and as a new business customer. And this shows the price as a renewing customer is cheaper than as a new business customer. So, I can't say there's any evidence Mrs S wasn't offered an ENBP.

Putting things right

I've taken the view that UKI haven't provided sufficient information or a clear explanation to demonstrate why and how Mrs S's price increased as it did for her renewal. So UKI should pay Mrs S £300 compensation for the upset and frustration caused.

My final decision

My final decision is that I uphold the complaint. U K Insurance Limited must take the steps in accordance with what I've said under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 17 January 2024.

Paviter Dhaddy
Ombudsman