

The complaint

Mr H complains about the premium HDI Global Specialty SE charged for the renewal of his lifetime pet insurance policy.

HDI, as the underwriter of the insurance contract, is responsible for this complaint and references to HDI also includes its agents.

What happened

Mr H took out a lifetime pet insurance policy for his dog with HDI in November 2019 at an annual premium of around £240. When he received the renewal documentation in 2021, he complained as the premium quoted was just over £1,160. HDI explained the premium was correct and based on a number of factors.

Unhappy at the increase in premium and concerned HDI was trying to recover their losses on claims made previously by Mr H, he brought his complaint to this service for an independent review.

Mr H says he expected some increases in line with his dog's age and other factors such as his living circumstances. However, he feels the policy is purposefully being made unaffordable and yet he can't move insurers because the skin condition claimed for in the first policy year would be considered a pre-existing condition on any new policy and excluded from cover. Mr H says the cost of the insurance isn't far from outweighing the cost of the medication needed for his dog and insuring him without cover for the skin condition. Mr H doesn't feel this is fair and he'd like HDI to set a reasonable premium rise relating to his dog's age and breed. He considers to be in the region of £500-£600 as he says this would be the cost of a new lifetime policy for his pet without a pre-existing condition.

The Investigator looked into matters and thought the premiums had been calculated correctly. However, he didn't feel HDI made it sufficiently clear to Mr H when the policy started in 2019 that the increases could be so large. Given the shock this would've caused, the Investigator recommended HDI pay Mr H £200 as compensation.

HDI responded to accept the Investigators recommendation. Mr H disagreed. He says the effect of the premium increase takes into account the claims for his dog's skin condition which means it's effectively not operating as a lifetime policy. And he's no better off financially than if he'd taken out a cheaper policy and paid for the skin condition medication separately. He explains the compensation recommended by the Investigator isn't enough to cover the increased cost he must pay for this policy.

The Investigator and Mr H communicated about the points raised but they didn't change the Investigators view. As Mr H didn't agree, the matter was passed 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.

Lifetime policies

Firstly, I thought it helpful to explain standard pet insurance policies won't usually cover any medical condition a pet had received treatment for or shown prior symptoms of when the policy was taken out. And, at renewal, ongoing or recurring medical conditions from the previous policy year won't usually be covered once the initial 12 months cover for any such condition has expired. However, there are some pet insurance policies which do continue to cover any medical conditions claimed for in previous years for as long as the policy is renewed and premiums continue to be paid, known as lifetime policies.

Lifetime policies are usually more expensive than standard policies as they provide a greater level of cover. But there are also different considerations around the long-term cost and cover for customers with these policies. This is because the cost doesn't stay the same for the life of the policy and will generally increase each year at renewal as the pet gets older and there's more risk of a claim being made at a higher cost to the insurer as the cost of veterinary treatment goes up. The cost of the policy can also increase due to claims, changes in insurance premium tax or if an insurer re-evaluates the risk. As mentioned, with a lifetime policy, such as the one Mr H took out, the insurer covers any conditions the pet develops on an ongoing basis for the rest of their lives – for as long as the policy is renewed, and premiums paid. Providing this cover is likely to be expensive and the yearly cost of these lifetime policies can go up significantly at renewal.

Increased Premium for 2021

Mr H is unhappy with the premium charged for the renewal of his lifetime policy. In particular, he's concerned the claims history has been taken into account which isn't what he feels a lifetime policy should do.

I can understand why Mr H has complained the increase in premium isn't fair given the cost of the policy more than doubled from 2019 to 2021. I've therefore thought about whether the increase has been correctly calculated by HDI. To do this, I must take into account insurers are entitled to decide how much to charge for the risks its policies cover, and this will be based on the risk it considers a customer presents. It's up to the insurer how much the premium increases by and it's common for this to vary from year to year. As this is a commercial decision, I don't have the power to tell a business what its insurance should cost – this is because it's not my role to tell an insurer how it should operate its business. So, I can't say the cost of Mr H's policy is too high or that he should be charged less in the future.

The policy terms from when Mr H first took out the lifetime policy 2019 allow HDI to change the premium at renewal. It states the factors which influence the increase including claims history but also expected future treatment and claims costs. It goes on to say, in general, the premiums increase with the age of your pet and if claims have been made. So, I consider it was made clear this is how premiums would be calculated. I've also seen underwriting guidance to show how this has been applied in Mr H's case. And I haven't seen evidence to suggest HDI treated him differently to how it would've treated any other policy holder in the same position.

When deciding how much to charge for its policies, insurers will assess how likely it is their policyholders will make a claim and how much it might have to pay out for those claims. Each insurer will make that assessment in their own way.

The Investigator explained some of the factors an insurer, such as HDI, considers when assessing risk and calculating premiums. These include factors like the increasing cost of

vets' fees, insurance premium tax, and other underwriting changes. And its assessment of those factors will affect all its customers in a similar way. Then there are other specific factors that will affect Mr H and those who have dogs who present similar specific risks. That includes things like the dog's age and – following a claim – the risk of a condition recurring.

In this case, Mr H made several claims for his dog's treatment, including claims for the skin condition. And it's clear these affected the risk HDI considered Mr H's dog presented. So it reflected that risk in Mr H's premium calculation. That is something it's allowed to do. Given the size of the increase, I can understand why Mr H wasn't happy with it, and I've considered his comments about the cost of the medication when compared to the cost of the insurance. But that doesn't mean HDI has done anything wrong. It's also important to note, the policy covers more than the pre-existing skin condition. It also covers other conditions and matters Mr H's dog needs treatment for, and this isn't time limited like standard policies, the cover is on an ongoing basis (for as long as the policy continues).

I appreciate Mr H feels this means the policy isn't a lifetime policy as it takes into account claims made. But, as explained above, it's entitled to do this.

So, while I appreciate the renewal quote it offered Mr H in 2021 was a significant increase on the 2019 and 2020 premiums, I don't think HDI has done anything wrong here by offering insurance to Mr H at the premium it has.

The sale of the policy to Mr H in 2019

Insurers have a duty to provide information that's clear, fair and not misleading. I think the wording in the policy terms and conditions makes it clear premiums are not fixed and are subject to change (increase) over the life of the policy. Mr H acknowledges he anticipated this would happen but didn't realise it would take into account claims made. However, I haven't seen any evidence from Mr H to support this was as a result of something HDI did or failed to do when he took out the policy with it online. Notwithstanding this, HDI have accepted the Investigators recommendation to compensate Mr H because the information could have been clearer. I agree it could've highlighted the premium will almost certainly increase year on year and, as the pet gets older, these increases can be significant. Further, it could've made clear the increases are not capped so there's no limit on how much the policy might increase by.

So, I accept the information at the point of sale didn't highlight the extent to which premiums might increase. That said, I consider it likely Mr H would still have taken out the policy even if this had been made clear. He wanted the more comprehensive cover offered by a lifetime policy and found and bought this himself online. If he'd looked for a policy elsewhere, it would've also been subject to increased premiums in a similar way to this policy with HDI where claims are taken into account.

In the circumstances of the case, I consider the £200 compensation for any distress and inconvenience caused because the information about the size of premium increases could have been clearer is a fair and reasonable way to resolve this complaint.

While I appreciate Mr H says this doesn't cover the cost of the increased premium, this isn't what it is intended to do. Instead, it's to compensate him for the shock of the size of the increased premium in a situation where the Investigator thought this hadn't been made sufficiently clear to him in 2019.

In summary, I can understand why Mr H found the price rise difficult to bear. But I don't think HDI calculated his premium unfairly or made a mistake in calculating his premium. I think it

treated him the same as other customers in a similar position, as we'd expect it to. This means I don't uphold the main part of his complaint. I recognise Mr H will be disappointed with this outcome. But my decision ends what we – in trying to resolve his dispute with HDI – can do for him.

Putting things right

To put things right, HDI Global Specialty SE must pay Mr H £200 in compensation.

My final decision

For the reasons set out above, I uphold Mr H's complaint. HDI Global Specialty SE must take the step outlined above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 20 September 2023.

Rebecca Ellis
Ombudsman