

The regulators' pet project

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The Financial Ombudsman Service (FOS) has told pet insurers to improve their communication strategies following a string of exclusion related complaints, in which the FOS has upheld numerous decisions in favour of consumers appealing against the application of policy exclusions.

Rachel Lam, director of insurance at FOS recently told Insurance Post:

"We made it clear to insurers that communication must be clear so that when someone takes a product out, they're aware of what they're getting" and "It's challenging. We've seen cases in which exclusions have been applied quite broadly. The team has been in contact with the regulator about this, as well as communicating with insurers".

Although FOS is independent in the way it investigates and decides cases, it works closely with the Financial Conduct Authority (FCA).

So, what type of complaints is FOS receiving?

Examples of complaints to FOS include:

- Time limits on cover for treatment – an insurer rejected an insurance claim for a cat's surgery costs on the basis that it was a condition that had been present for around 18 months and that cover only applied for 12 months from the date that the condition appeared. The insurer also said the cat should have been taken to the vet sooner. The consumer argued that she had not been aware earlier that there was an illness which needed attention. FOS concluded that the cat had been taken to the vet as soon as the consumer was aware of signs of illness – when there was an infection. The insurer was told to pay the claim, and any further treatment costs during the 12 month period which would continue after the end of the policy period – as long as the policy was renewed and premiums continued to be paid.
- Complaints about policy wordings – for example, a claim might be rejected because of the meaning of key words in the policy, such as 'condition' or 'treatment'.
- Complaints about pre-existing conditions – claim declinations saying that the animal was already suffering from a condition when the insurance policy was taken out.
- Bilateral conditions – claims where a condition affected one side of the animal's body first, then the other at a later date.
- Premium increases at renewal.

Consumer Duty

There are essentially four types of pet insurance:

- Lifetime – premiums are paid every year during the pet's life and the insurer must keep covering the pet, regardless of age or existing conditions (subject to conditions). However, as the pet gets older premiums do increase.
- Annual (or time limited) - premiums are paid for a year's coverage on a rolling basis. Customers can switch to a cheaper policy each year, however this type of cover is often less comprehensive than lifetime insurance and generally does not cover pre-existing conditions. Customers often struggle to obtain insurance as their pet ages.
- Accident only – This is basic cover that covers accidents but not illnesses.
- Maximum benefit (or 'per condition') – A fixed sum is provided to treat specific illness or injury.

Many consider that only Lifetime insurance is likely to meet consumer needs. This is highly problematic following the implementation of the Financial Conduct Authority's' Consumer Duty. Catherine Carey, head of consumer strategy at Consumer Intelligence has asked:

"Why are there three types of products in the market that could leave customers in financial detriment?"

If customers are left paying bills that they don't expect, the financial detriment caused could lead to issues for insurers, and potentially breaches of the Consumer Duty. For lifetime products, customers don't have the same ability to shop around in the event of premium increases as they do with other types of consumer products such as motor insurance. The pet market is dominated by a small number of providers, resulting in a shortage of choice for customers.

Data is generally more difficult to come by for pet insurers than other personal line products such as home or car insurance. The industry faces challenges in accurately modelling claims. The high cost of treatments and advancements in the complexity and number of treatments available have increased vet (and consequently insurance premium) costs.

The Competition and Markets Authority ("CMA"), the UK's competition regulator, is currently investigating the veterinary sector. Its review will look into whether there is effective competition between vet practices and whether customer's have adequate transparency and access to information. The watchdog has said it is concerned about a drop in independent vet practices across the industry, leaving customers with few opportunities to shop around. The CMA is due to provide an update on the review and propose next steps in early 2024.

With the FCA's focus on fair value (one of the four outcomes of its Consumer Duty), the close relationship between FOS and the FCA and the challenges facing pet insurance, pet insurance will undoubtedly be on the FCA's list for 2024. The FCA uses complaints data to help assess how well firms are treating their customers and how their performance changes over time. It then uses this data to guide its work in supervising firms and markets, and to highlight potential concerns with products. The FOS highlighting a string of exclusion related complaints in pet insurance is therefore highly relevant.

What does this mean for insurers?

Insurers need to ensure they obtain sufficient data to be able to satisfy the FCA that they are in a position to identify risks of poor consumer outcomes in their pet insurance products. This may be particularly challenging given the shortage of pet insurance data compared to other personal lines products. Insurers must ensure that they have data available to support that they are giving consumers good value.

Insurers are also advised to review the exclusions in their pet insurance policy wordings (such as pre-existing health conditions), how they are being implemented by claims teams and how they are being communicated to customers throughout the sales process. Complaints received should be closely monitored and more broadly, insurers should consider if their pet insurer products are meeting consumer needs.

With the number of pets insured in the UK as low as 10-15%, there are significant opportunities for growth. However, there are also significant challenges during a cost-of-living crisis where consumers are often focused on price.

There are also opportunities to move away from the traditional insurance model to introduce elements of preventative health care for pets, which have the potential to reduce the likelihood of claims. Some products now contain interesting offerings, such as consultations with animal behaviour experts.

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