

The complaint

Mr S is unhappy with the amount Insurance Factory Ltd (trading as Lancaster Insurance Services) says he owes after he cancelled his car insurance policy.

What happened

Mr S took out a car insurance policy through Lancaster – a broker. He applied for the policy through an online comparison website. Around five months later he contacted Lancaster to say he'd sold his car and asked to cancel the policy. Lancaster responded to say he owed £83.27 following the cancellation. But it offered to apply a 20% discount if he paid straight away.

Mr S complained to Lancaster as he didn't understand why he owed any further money. He didn't think it was fair he was paying the full annual premium when he'd only had the policy for five months. Lancaster said the amount it had charged was in line with the terms of the insurance policy. It said Mr S didn't take out a monthly insurance policy. It was an annual insurance policy, but the annual premium was funded through a loan and Mr S was repaying that loan monthly.

Mr S maintained what he was being charged was unfair. He also said he'd not been told he was taking out a loan, nor did he think he had consented to this. He said he doesn't take out little loans and said he wouldn't have taken out the loan had this been made clear to him.

I issued a provisional decision not upholding this complaint and I said the following:

"I should first explain Lancaster were acting as an insurance and credit broker to arrange the insurance policies and finance agreements. In reviewing this complaint I need to think whether it's carried out its responsibilities as a broker. I'm not able to consider the actions of the insurer or the finance provider in this decision.

I think there are two issues for me to decide here:

- 1. The sale of the finance agreement; and*
- 2. The cost of cancelling the insurance policy.*

I shall address each section separately.

Sale of the finance agreement

Mr S took out an annual insurance policy through Lancaster. An annual premium was payable for the policy and this was due at the start of the insurance policy. Mr S chose to pay for the insurance policy through monthly instalments. To facilitate this, Mr S took out a type of finance agreement called a running account credit agreement whereby the finance provider – who I shall refer to as C – paid the annual premium and Mr S was to repay this under the terms of the finance agreement. It's now standard industry practice for a consumer to take out a finance agreement to enable them to pay for an insurance policy monthly.

Mr S says Lancaster didn't explain he was entering into a finance agreement or what the applicable costs of finance were.

As the credit broker, Lancaster needed to ensure Mr S had enough information to make an informed choice about what his options were. In particular, I've thought about the regulatory guidelines set out in CONC 4.2.5. So I think it needed to explain before Mr S entered into the contract that he was entering into a finance agreement, the applicable rate of interest (APR), how much extra it would cost to pay monthly and how much it would cost to pay for the policy up-front.

I've reviewed the online application Mr S would have completed, but I don't think Lancaster did enough. It explained that the direct debit arrangement would be provided by a third party – C – but it didn't clearly set out that Mr S would be taking out a separate finance agreement. I also can't see that it would have clearly set out what the relevant APR was. I accept Mr S could have clicked through a link to find the pre-contract document. But I don't think this is sufficient. It needed to make all the relevant information reasonably clear to Mr S without him needing to go and click through a number of links to find this information. And I don't think it did so.

However, I also need to think about whether Mr S would have acted differently. I can see that it was made clear at the start of the finance application how much Mr S would pay if he paid it upfront and how much it would cost if he in monthly instalments. So Mr S would have known how much more it would cost to pay monthly. And he chose to pay monthly.

Further to this, Mr S has told us that he routinely paid for his insurance policies monthly. And it's most likely he would have had a similar arrangement for his previous insurance policies – i.e. he would have taken out a finance agreement to facilitate this. So, while I have considered Mr S's comment that he wouldn't have taken out the finance agreement had it been made clearer to him, I'm not persuaded that he would have acted differently.

Cancellation of the insurance policy

Mr S is unhappy he still owed over £80 after he cancelled the insurance policy and he thinks it's unfair he's had to pay the full annual premium even though he'd only had the policy for around five months.

I've looked at why Mr S still owes money and this is because of the administrative charges Lancaster has charged. Insurers and brokers are entitled to charge administrative charges to cover the cost of any work it does. In this case Lancaster has charged a £70 fee to arrange the policy, £30 for a mid-term adjustment and £2.22 as a cancellation charge.

I don't think £70 is an unfair charge to cover the work Lancaster had to do to arrange the insurance policy – such as create new policy documents, send them to Mr S, arrange to record his car on the database and set up the requisite credit agreement to enable him to pay for the policy. I understand Mr S changed the registration number for the vehicle midway through the policy. Similarly, this would have required some administrative work – i.e. updating policy documents and updating the details on the MIB database. So I don't think it was unfair to charge a £30 fee to do this. Finally, the terms of the policy allowed Lancaster to charge up to £50 to cancel the policy. And I don't think it would have been unfair if it had charged this. So I think it's treated Mr S fairly in only charging £2.22.

Taking everything into account, I don't think Lancaster has treated Mr S unfairly. So I don't think it needs to do anything further to put things right."

Mr S didn't accept my provisional decision. In summary he raised the following points:

1. He thinks, while Lancaster may have acted legally, he didn't think they treated him fairly.
2. He knew he had to pay more to pay monthly but he didn't know what the APR was.
3. He maintained that when he tried to cancel the policy Lancaster said he would have to repay the loan in full. He said, it was only as the matter unfolded, that he found out Lancaster were a broker, not an insurer.
4. He understood he had to pay administrative charges and never disputed this, so queried why I referred to this in my decision.
5. He has since paid for all his insurance policies with upfront payments. So he maintains he would have done the same, had it been made clear he was taking out a finance agreement.

Lancaster responded to maintain it did make everything clear in the online application process. It said the details are provided throughout the journey, without the customer having to click through a number of links to find the information. And it highlighted that it set out *'if you choose to pay by Direct Debit, your monthly instalment plan will be financed by [C] and that they will send a welcome pack including a credit agreement'*.

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.

I've taken both Mr S and Lancaster's additional comments into account, but I've come to the same conclusion as I did in my provisional decision.

I appreciate Mr S doesn't believe it's fair that he has to take out a small loan to pay for an insurance policy through monthly instalments and that he doesn't think Lancaster treated him fairly. But, as I said above, it's standard practice for consumers to enter into credit agreements to enable them to pay monthly.

This service isn't the regulator of the insurance industry – so it's not our role to set out what an insurer should or shouldn't be doing. We are a dispute resolution service and our role is to consider whether an insurer/broker has acted fairly, taking into account the law and industry regulations. In this case, I've looked at whether Lancaster set out what it was required to do, in line with industry regulations. My provisional decision set out what I think Lancaster was required to do and where I think it did and didn't do what it should. And I haven't seen anything for me to say what I set out in my provisional decision was unfair.

Mr S says he didn't understand what the APR was before he agreed to take out the policy. But since I issued my provisional decision, I've noted that, just before he had to click to pay for the policy, the following statement was set out:

"You have selected to pay by monthly instalments via Direct Debit. A deposit of £22.65 is required today, followed by 10 instalments of £23.64. The total amount you will pay will be £259.05, which includes interest at 16% (APR 39.18%)."

So I'm now satisfied the total cost and applicable APR was set out before Mr S took out the policy and he chose to take it out.

The online application does explain the monthly payments were arranged by a third party – C – and that Mr S was entering into a credit agreement. But I don't think an average consumer would necessarily understand that a credit agreement would mean a loan – they may reasonably just assume it's a monthly credit facility. I would expect Lancaster to explain

the type of credit agreement Mr S was taking out – i.e. a running account credit agreement. And I don't think Lancaster made this clear.

But, I'm still not persuaded Mr S would have acted differently. I accept he now pays for his policies upfront. But I similarly can't ignore that he routinely paid for his insurance policies monthly previously. And he would have taken out running account credit agreements with all of these policies. It's only since raising the complaint that he's understood the way the industry works. But I think this is because he may have not read everything that was set out in the online application. And I can't hold Lancaster responsible for this.

Finally, I've thought about Mr S's comment that he was told he had to pay the full amount of the loan when he looked to cancel the policy. But I don't agree it said this. I don't dispute Mr S thought he was being made to pay the full annual premium. But Lancaster didn't say this. It set out that there was still money owing on the credit agreement, but this was because of the administration charges that were payable under the policy. And, for the reasons I set out in my provisional decision, Lancaster didn't treat Mr S unfairly in what it's charged and what it said he still owed on the finance.

My final decision

For the reasons I've set out above, it's my final decision that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 27 July 2021.

Guy Mitchell
Ombudsman