

The complaint

Mr and Mrs R complain that Great Lakes Insurance SE hasn't refunded the premiums they paid for a travel insurance policy.

What happened

On 7 February, Mr and Mrs R took out a single-trip travel insurance policy through a broker. The policy was underwritten by Great Lakes. Mr and Mrs R's policy covered them between 21 March and 3 April 2020 and was intended to cover a cruise they planned to take. The policy included an optional Travel Disruption Extension (TDE). Subsequently, on 12 March 2020, Mr R called the broker to declare a new medical condition, which Great Lakes agreed to cover for an additional premium. In total, Mr and Mrs R paid £705.55 for the policy, which included a discount of £28.28.

However, as a result of the Covid-19 pandemic, the UK government advised against cruise holidays for vulnerable people on 12 March 2020. So Mr and Mrs R cancelled their cruise that day and received a refund of their cancellation costs from the cruise operator. They got in touch with Great Lakes to cancel their policy and request a refund of their premium.

Great Lakes didn't offer to pay Mr and Mrs R a cash refund of their premium. Ultimately, it offered them a pro-rata credit voucher for the unused portion of their policy, which could be put towards a new policy. This refund didn't include a pro-rata amount for the TDE. Great Lakes said the voucher was worth £183.42 and would be valid for 36 months.

Mr and Mrs R weren't happy with Great Lakes' offer and they asked us to look into their complaint.

Our adjudicator set out the details of the relevant cancellation rights and how they applied in the circumstances of this case. She also explained that it is a fundamental principle of insurance law that if the insurer had started to bear risk – for however short a time – the premium paid is not returnable. That means it's not unreasonable for an insurer to keep any premiums relating to the risk it covered during that time. And she explained that Covid-19 didn't make it impossible for the contract of insurance to be performed because cover under the policy started on 7 February 2020 and the policy covered various risks during that time.

The adjudicator acknowledged the unique and unprecedented circumstances of Covid-19. She thought that the fair and reasonable outcome in all the circumstances of this complaint was for Great Lakes to offer Mr and Mrs R a credit voucher, which took into account the unused cover remaining on the policy. But she didn't think Great Lakes had calculated the offer fairly, so she asked Great Lakes to recalculate the offer to include a pro-rata refund for the TDE. She felt the refund should be calculated from the date the cruise holiday had been cancelled on 12 March 2020, rather than the date Great Lakes had originally used. And she thought Great Lakes should recalculate the pro-rata refund due by using the actual price Mr and Mrs R paid for their policy, divided by the total length of the policy and multiplied by the days that weren't used. She didn't think the terms of the voucher were overly restrictive though. Overall, she didn't think Great Lakes needed to pay Mr and Mrs R a cash refund of their premium.

Mr and Mrs R were unhappy with the adjudicator's assessment. In summary, they referred to the fact that they'd been given a quote for a single trip policy to cover their trip through the same broker around eight months before they went on to take out cover in February 2020. This quote had been significantly higher. Based on this quote, they calculated what they thought was the monthly price of cancellation cover. They felt that Great Lakes hadn't demonstrated that there wasn't a material unevenness in the incidence of risk across the life of the policy. They queried whether we'd seen evidence of Great Lakes' claims experience to confirm this point. They didn't feel the additional premium Mr R had paid for a new medical condition on the same day the trip was cancelled should be included in the pro-rata calculation. And they provided evidence that unfortunately, Mrs R had suffered a serious illness which they said meant that they were unlikely to be in a position to travel again.

Great Lakes reviewed all of the available evidence. It agreed to refund Mr R's full additional premium of £58.44 in cash. That's because given Mr R paid the premium and cancelled the trip on the same day, technically, Great Lakes had never been 'on-risk' for the new condition. And given Mrs R's health, it agreed to pay a pro-rata cash refund of £261.11 for the unused portion of the original policy.

Mr and Mrs R's complaint has been passed to me to decide.

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, whilst I'm sorry to disappoint Mr and Mrs R, I think Great Lakes' current settlement offer is fair and reasonable and I'll explain why.

Our investigator identified, and set out, the rules, regulations and law. I agree those are the relevant considerations which apply to the specific circumstances of this case.

The policy terms and conditions say:

'You have the right to cancel your policy within 14 days of the date of issue or receipt of your documents, whichever is later. We will only refund to you any premium you have paid, less any fees and charges if you have not travelled, or have made, or intend to make a claim.

If the notice of cancellation is received outside the 14 day cooling off period no premium will be refunded, however discretion may be exercised in exceptional circumstances such as bereavement or a change to the policy resulting in us declining to cover your medical conditions.'

In this case, it's clear that the original policy was cancelled outside the cooling off period and so there is *no* requirement under the relevant industry rules and guidelines for Great Lakes to offer a refund of premium.

As I've outlined above, the contract of insurance says that Great Lakes doesn't have to pay any refund of a policyholder's premium after the cooling off period has ended. In this case, Mr and Mrs R's cooling-off period ended on 21 February 2020. But the policy wasn't effectively cancelled until 12 March 2020. So the cancellation was clearly outside of the 14 day cooling off period. I don't think it would be fair to ask Great Lakes to use its discretion and treat the Covid-19 pandemic as an exceptional circumstance. I think this policy term most likely relates to circumstances which are individual to the policyholder – such as bereavement. This means I don't think the terms and conditions of Mr and Mrs R's contract

with Great Lakes entitle them to *any* refund of premiums.

But I've taken into account what is fair and reasonable in the circumstances of this complaint (as I'm required to do) including the unique and unprecedented circumstances surrounding Covid-19 and Mrs R's ill health. In the circumstances of this case, I think Great Lakes' offer of a cash refund for the unused portion of Mr and Mrs R's policy, including the TDE, is fair and reasonable. And given the trip wasn't cancelled until 12 March 2020, I think it's fair that the date of the cancellation of the holiday is used to calculate the refund on the facts of this case

Great Lakes would've been 'on-risk' for the core policy for a 57-day period and 23 days for the new medical condition Mr R declared on 12 March 2020, if the policy hadn't been cancelled. The refund of £261.11 represents the unused 23 days of cover, after the core policy was cancelled, as Great Lakes was no longer carrying any risk of Mr and Mrs R making a claim after that point. The additional refund amount of £58.44 represents the full amount Mr R paid on 12 March 2020 for his new medical condition. That's because Great Lakes acknowledges that given the trip was cancelled on the same day Mr R paid the additional premium, it didn't bear any risk for that condition.

And Great Lakes has also agreed to recalculate the refund by dividing the actual price paid for the policy by the total cover length (in days) multiplied by days not on risk. I'm satisfied that this now leads to a fair outcome.

I appreciate Mr and Mrs R have concerns about the calculation and in particular, how Great Lakes chooses to apportion risk across the life of the policy. I accept they were quoted a higher price some months before their trip. But I don't think that makes a difference to the outcome. I say that because premium quotations can fluctuate rapidly, based on live data, including current claims experience. And Great Lakes says that at the point of Mr and Mrs R's initial quote, the policy was underwritten by a different insurer, which could also have accounted for price differentials. I don't think this is persuasive evidence of the broad monthly price Great Lakes charges for cancellation cover.

It's clear Mr and Mrs R aren't persuaded Great Lakes has sufficiently demonstrated that there isn't a material unevenness in the way it apportions risk. I've considered this. In my experience, Great Lakes doesn't break down the premium for the basic policy or the additional cover options into cancellation and post-departure cover. And also in my experience, Great Lakes hasn't demonstrated that there's a material unevenness in the incidence of risk across the life of its single trip travel insurance contracts.

An insurer is entitled to decide how it assesses the risk of a claim, taking into account factors such as its previous claims experience, its assessment of the likelihood of claims arising and its own commercial interests. It's also entitled to decide what price to charge to cover that risk. That's as long as it treats its customers fairly and doesn't single them out in any way.

In this case, I'm satisfied that Great Lakes has calculated the refund in the same way it would for any of its other customers in the same situation. This means I don't think Great Lakes has singled out Mr and Mrs R in any way or treated them unfairly.

Overall, I find that Great Lakes' current offer of settlement is fair and reasonable.

My final decision

For the reasons I've given above, my final decision is that Great Lakes' offer of settlement is fair and reasonable.

I direct Great Lakes Insurance SE to calculate the pro-rata cash refund due to Mr and Mrs R by dividing the actual price they paid on 7 February 2020 for their annual travel insurance policy, including the Travel Disruption Extension, by the total cover length (in days) multiplied by days not on risk. And I direct it to pay a full cash refund of the additional premium of £58.44 which Mr R paid Great Lakes on 12 March 2020.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R and Mr R to accept or reject my decision before 25 April 2022.

Lisa Barham
Ombudsman