

The complaint

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

Mr and Mrs M are represented by their son in bringing this complaint. But for clarity – I'll refer to all submissions as being made by Mr and Mrs M directly.

What happened

The background to this complaint, and my initial conclusions were set out in my provisional decision dated 20 February 2022 – a copy of which is attached and forms part of this final decision.

In my provisional decision I explained why I didn't think Great Lakes had acted reasonably and fairly in how it deal with Mr and Mrs M's claim. And I outlined the reasons why I was minded to uphold their complaint. I said:

"What happened

Mr and Mrs M took out a single trip travel insurance policy with Great Lakes on 4 February 2020 for a cruise which was due to take place from 30 May until 6 June 2020.

Mr and Mrs M paid a total of £77.18 excluding Insurance Premium Tax (IPT) for the standard level of travel insurance cover, which also cover them for a number of declared medical conditions. Mr and Mr M also paid an additional premium of £21.58 (excluding IPT) for cruise plus cover.

The cost of Mr and Mrs M's policy also included a discount of £16.80, which they received at the point they purchased their policy. In total, Mr and Mrs M paid £101.71 for their policy including IPT.

On 4 May 2020, Mr and Mrs M contacted Great Lakes to explain that they were unable to travel on their cruise due to the Covid-19 pandemic. They requested the cancellation of their policy and a refund of the premium they'd paid.

Great Lakes informed Mr and Mrs M that a full refund couldn't be provided as their 14 day "cooling off" period had expired and, under the terms of their policy, no refund was due. But it said they could either change the dates for their policy, receive a pro rata refund by way of a voucher, which would be valid for use within 36 months or a 20% discount towards another policy in the event that the refund was less than £10.

Mr and Mrs M weren't happy with the offer Great Lakes had made and they complained to our service. Their complaint was considered by one of our investigators who set out the details of the relevant cancellation rights and how they applied in the circumstances of this case. That means it's not unreasonable for an insurer to keep any premiums relating

to the risk it covered during that time. The investigator also explained that Covid-19 didn't make it impossible for the contract of insurance to be performed because cover under the policy started on 4 February 2020 and the policy covered various risks during that time.

Our investigator acknowledged the unique and unprecedented circumstances of Covid-19 and recommended upholding this complaint. They didn't think Great Lakes' refund offer was fair and reasonable. In order to put matters right, they recommended that Great Lakes calculate Mr and Mrs M's refund by dividing the price they paid for their policy by the total cover length (in days). They thought Great Lakes should multiply that value by the days Mr and Mrs M weren't on risk. And they thought Great Lakes should refund the cruise plus cover that Mr and Mrs M had purchased in full.

Great Lakes agreed with our investigator's view of this complaint. But Mr and Mrs M rejected it. They didn't think a voucher was fair because they said they didn't intend to travel in the future due to the impact of the pandemic and concerns about their health. I've therefore been asked to decide what is a fair and reasonable way of resolving their concerns.

What I've provisionally 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 into account everything Mr and Mrs M and Great Lakes have said. Having done so, I'm intending to uphold this complaint in part for the reasons set out already by our investigator.

Our investigator asked Great Lakes to recalculate the refund due to Mr and Mrs M from 5 May 2020, which was the day after they requested the cancellation of their policy. I don't think that was correct. My provisional view is that the calculation should include an additional day – namely 4 May 2020 because this was the day cancellation as requested. For this reason, and in the interests of fairness, I am issuing a provisional decision.

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 a bereavement or a change to the policy resulting in us declining to cover your medical conditions".

I've considered everything Mrs and Mr T and Great Lakes have said about this complaint. And, for ease, I'll break this complaint down into a number parts to explain why my provisional decision is as set out below.

Are Mr and Mrs M entitled to a full refund of the premium?

I don't think it's fair and reasonable for Mr and Mrs M to receive a full refund of the premiums because:

- Cover under their policy commenced immediately once it had been purchased, which is confirmed by the insurance validation certificate they received. I'm satisfied Mr and Mrs M were reasonably made aware of the terms that applied to their policy, which are typical of the cancellation terms found in most travel insurance policies.*
- The policy was cancelled outside the cooling off period and so there is no requirement under the relevant industry rules and guidelines for the insurer to offer a refund. And 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.*
- Mr and Mrs M weren't just insured for the dates of travel. The price set by Great Lakes also covered them for cancellation cover from 4 February 2020. So, the premium they paid covered the risk of them having to cancel their holiday due to any of a number of listed events insured under the policy including, for example, Mr and Mrs M falling ill with a declared pre-existing medical condition.*
- As I've outlined above, the contract of insurance says that no refund is due for cancellation outside the cooling off period except in exceptional circumstances. The examples of exceptional circumstances identified in the policy are specific to the individual policyholder, such as bereavement or changes to their health. They don't extend to cancellation as a result of the Covid-19 pandemic.*
- I've taken into account what is fair and reasonable in the circumstances of the complaint including the unique and unprecedented circumstances surrounding Covid- 19.*
- When considering single trip policy refund complaints, our service would expect Great Lakes to use the date a holiday was cancelled as the date of cancellation for a policy. This is because we think any pro-rata refund should be calculated from the holiday cancellation date*
- I can see that our investigator invited Mr and Mrs M to confirm the date their cruise was cancelled. But they haven't been able to provide an exact date. They say their holiday was cancelled on a date between the end of April and mid May 2020. In the circumstances of this case, I think Great Lakes should use 4 May 2020 as the relevant policy cancellation date as that's the date Mr and Mrs M first contacted it to request the cancellation of their policy*

Was it fair and reasonable for Great Lakes to offer a voucher?

- Great Lakes wasn't obliged to refund any premium to Mr and Mrs M. But it used its discretion to initially offer them a 20% discount towards the cost of another travel insurance policy. It offered this discount because the pro rata refund amount it initially calculated was £8.59.*
- Following our investigator's view, Great Lakes agreed to increase its refund offer. And it stated that it would make that refund to Mr and Mrs M by pro-rata credit voucher as an alternative to a pro-rata monetary refund. It's stated that*

this offer is valid for use within 36 months. It isn't prepared to offer a cash settlement here.

- Our service would typically view a voucher refund as a fair resolution to this complaint because the validity period provides a reasonable period within which a consumer can use it towards future travel insurance policies they may wish to take out. So, it isn't unreasonably restrictive. The voucher is also transferrable.*
- However, here Mr and Mrs M have told our investigator that they'd prefer a pro-rata monetary refund as an alternative to a credit voucher. Mr and Mrs M have told our investigator that they're unlikely to use the voucher due to concerns of how the pandemic may impact their health given their age and pre-existing health conditions that were declared when they took out the policy. And I can understand why a cash settlement may be preferable in those circumstances.*
- But I haven't seen any evidence to suggest that Mr and Mrs M's health has deteriorated to the point that it might preclude future travel. And I can see they were prepared to travel in 2020 with the health conditions they declared to Great Lakes*
- So, based on the available evidence, I'm not persuaded that there are any exceptional circumstances that persuade me that Great Lakes should pay a pro-rata monetary refund. And, in offering a credit voucher when it wasn't obliged to, Great Lakes has departed from industry rules and the terms of its policy to the benefit of Mr and Mrs M because of the unanticipated and unforeseen events surrounding the global Covid-19 pandemic.*
- However, if Mr and Mrs M wish to provide medical evidence in response to this provisional decision that satisfies me that they won't be able to make use of the voucher within its 36 month validity period I will, of course, consider it before I reach a final decision.*

Is the calculation of the refund fair and reasonable?

- I've carefully looked at whether the amount initially offered by Great Lakes to Mr and Mrs M was fair and reasonable.*
- As I've already mentioned, Mr and Mrs M were given a discount of £16.80 at the point of sale. I've seen the refund calculation formula used by Great Lakes when it first calculated Mr and Mrs M's refund of £8.59. Like our investigator, I don't agree this refund led to a fair and reasonable outcome in the circumstances of this complaint for the reasons I'll go on to explain.*
- When Great Lakes initially calculated the refund it offered Mr and Mrs M, this was based on it removing the discount they received at the end of the calculation. Its starting point was to add the discount onto the price Mr and Mrs M paid. It then subtracted the additional cover cost and divided this amount by the 124 days of cover Mr and Mrs M had purchased. It then multiplied that sum by the 34 days they weren't on risk and subtracted the discount they'd received.*
- I'm not persuaded that this calculation led to a fair and reasonable outcome in the circumstances of this complaint. I can see that Great Lakes has now offered to issue Mr and Mrs M with a voucher in line with our investigator's recommendation as to how it should resolve this complaint and it's put forward a revised refund*

offer. It says the refund for the standard level of cover plus the medical premium is £20.18 including IPT. This doesn't include the additional cover option refund, which is addressed below.

- I've carefully checked the calculation Great Lakes has provided. But I'm not satisfied it's correct. I say this because Great Lakes' revised offer is based on it using 5 May 2020 as the cancellation date – I recognise this is the date our investigator used in their view. But I'll explain why this isn't right.*
- As Mr and Mrs M cancelled their policy the day before, the calculation is a day short. So, I think Great Lakes should divide the price Mr and Mrs M paid for the standard level of cover by the total cover length (124 days). It should then multiply that value by the days Mr and Mrs M weren't on risk (34 days) as opposed to the 33 days suggested by our investigator in their view of this complaint.*

Should Mr and Mrs M receive a refund of the Additional Cover Option they purchased?

- I can also see that when Great Lakes calculated the refund it offered Mr and Mrs M it didn't include any refund for the additional cover they'd purchased. I don't think that was fair and reasonable.*
- I've already mentioned that Mr and Mrs M paid for optional cruise plus cover. This provides a benefit to a policyholder in the event of a missed port departure, cabin confinement, itinerary change, unused excursions and cruise interruption. So, this cover would only have provided a benefit to Mr and Mrs M in the event of a claim occurring whilst they were on her holiday. As they didn't travel, Great Lakes didn't ever cover the risk of a claim being made under this additional cover option. So, it would be fair and reasonable for Mr and Mrs M to receive a full refund of the premium and IPT they paid for this cover.*
- I've taken into account Great Lakes' reasons for not including the premiums paid for the additional cover options within its refund calculations. Great Lakes says it can be difficult to tell if any additional cover options have been used. However, Mr and Mrs M didn't travel on their planned holiday and there's no suggestion any claim was made under the additional cover options attached to their single trip insurance policy.*
- Great Lakes has also mentioned situations where consumers purchase additional cover options and subsequently cancel these if they don't need to claim – thus getting extra cover at no or a significantly reduced cost. I'm satisfied this isn't the case here, as Mr and Mrs M's holiday was cancelled due to the circumstances surrounding Covid-19.*
- Finally, Great Lakes has said the price of the additional cover options have been calculated on the assumption that the cover remains in place for the full length of the policy. However, the same seems to be true of the price for the basic single trip insurance policy, so I don't think there are any reasonable grounds for treating the additional cover option which Mr and Mrs M paid for any differently.*
- In the overall circumstances of this complaint, I think Great Lakes should refund £25.90 by voucher, which is the cost Mr and Mrs M paid for cruise plus cover including IPT.*

In my provisional decision, I invited both parties to respond with any additional information they wanted me to consider before I made my final decision, which is our service's last word on the matter.

Great Lakes responded providing a calculation outlining what it thought the value of the refund should be. It confirmed that it had nothing to add, other than the calculation, in response to my provisional decision.

When Mr and Mrs M responded, they spoke to our investigator to clarify the calculation and content of the provisional decision. But, as far as I can see, they didn't provide any evidence or submit any representations that I was not already been aware of.

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.

As I set out in my provisional decision, I think it's fair and reasonable to uphold this decision in part for the reasons I outlined previously.

I mentioned that, in response to my provisional decision, Great Lakes provided a calculation to our service, which it says now recognises that Mr and Mrs M weren't on risk for 34 days. Having carefully checked this calculation, I can see Great Lakes has correctly taken into account the number of days Mr and Mrs M weren't on risk from 4 May 2020 onwards – this being the correct day for the cancellation of the policy.

Great Lakes has offered to refund Mr and Mrs M a total of £20.79, which I'm satisfied equates to 34 days on unused cover from 4 May 2020 until the date the policy would have ended had it run its full term. It has also reaffirmed its offer to refund them £25.90 for the unused additional cover option they took out when their policy was purchased. These two sums bring the total refund due to Mr and Mrs M to £46.69. I can see that Great Lakes hasn't departed from its previous offer to issue a credit voucher refund.

In my provisional decision, I invited Mr and Mrs M to provide medical evidence showing that their health had deteriorated to the point that it might preclude future travel to enable me to reconsider whether the refund from Great Lakes should be by way of cash settlement instead of a voucher. They haven't provided any evidence in response to that invitation. So, I remain persuaded that it's fair and reasonable here for Great Lakes to offer a credit voucher refund.

In the overall circumstances of this complaint, I'm persuaded that the refund offered by Great Lakes in response to my provisional decision is correct and in line with the way in which I said I had intended to resolve this complaint.

Putting things right

To resolve this complaint, my final decision is that it would be reasonable and fair for Great Lakes to issue a voucher refund to Mr and Mrs M in the sum of £46.69.

My final decision

My final decision is that I uphold this complaint. To resolve the complaint that Mr and Mrs M brought to our service, Great Lakes Insurance SE should put things right in the way I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M and Mrs M to accept or reject my decision before 19 April 2022.

Julie Mitchell
Ombudsman