

The complaint

X complains about the way Skyfire Insurance Limited handled a third party car insurance claim against him and the impact that had on his annual insurance premium.

What happened

X has a car insurance policy underwritten by Skyfire. In October 2020, Skyfire were notified of a third party claim against X. The third party claimed X had caused damage to their car whilst he was parking his car in a car park.

X denied having anything to do with the accident. He said his car was completely undamaged and clearly hadn't been involved in any collision with another vehicle.

Skyfire asked the third party's insurer for evidence to support the claim. When this wasn't forthcoming within a reasonable timeframe, Skyfire chased the third party insurer on a number of occasions.

Eventually, in early February 2021, in the absence of any information or evidence from the third party insurer, the claim was closed.

X's policy was due for renewal on 17 February 2021. He was understandably keen that the completely unsubstantiated third party claim was removed from the record and wouldn't affect his annual premium going forward.

Given the unfortunate timing, X had been quoted a renewal price by Skyfire whilst the claim was on-going. That quote took into account the open third party claim in the calculation of the premium. At over £1,500, this was more than three times X's previous annual premium.

Skyfire told X that, on 10 February 2021, the records relating to the third party claim had been removed from the Claims and Underwriting Exchange (CUE) database used by all insurers. The claim had been closed as raised in error, because there was no evidence at all that there had been an accident. X took it that the third party claim would not be taken into account in any calculation of future premiums – by Skyfire or any other insurer for that matter.

X says that Skyfire then sent him a renewal quote priced at £738.88. His previous annual premium had been £435.95. He says the information he was sent by Skyfire at that point listed the third party claim as a non-fault accident.

He says it wasn't until 16 February 2021, after he'd queried this with Skyfire, that their records were amended and all information relating to the unsubstantiated third party claim was removed. By that time (the day of expiry of his insurance policy), he had no choice but to accept the renewal quote from Skyfire, despite the seemingly large and unexplained increase in the premium.

X complained to Skyfire. They said they were obliged to keep the third party claim open whilst the third party insurer was given a reasonable opportunity to obtain and provide

evidence to support the claim. They said their records were appropriately amended once they'd closed the third party claim. And they said the increase in X's premium was not caused by the third party claim.

X wasn't happy with this outcome and brought his complaint to us. Our investigator looked into it and didn't think Skyfire had done anything wrong.

X disagreed and asked for a final decision from an ombudsman.

Because I didn't agree with the outcome proposed by our investigator, I issued a provisional decision. This allowed both X and Skyfire a chance to provide further information or evidence and/or comment on my thinking before I make my final decision in this case, which is this service's last word on the matter.

My provisional decision

In my provisional decision, I said:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I agree with our investigator's view that it wasn't unreasonable for Skyfire to record the fact that the third party's insurer contacted them to pursue a claim. Nor was it unreasonable for Skyfire to keep that claim record open until the third party insurer had had a chance to collect and provide evidence to substantiate that claim.

The timing of this was very unfortunate for X, given the renewal date for his policy. But I can't say Skyfire did anything wrong up until 10 February, when they decided the claim should be closed down due to a lack of evidence from the third party insurer and told X that the records relating to that claim would be removed.

I should also say that it's not for us to tell insurance underwriters how to price their policies. The car insurance market is very competitive, and customers are free to seek to buy cover elsewhere if they aren't happy with the price offered by their current insurer.

X has made it clear, in his communications with us, that he's very well aware of that and is familiar with comparison websites which can identify the best-priced option for potential customers.

His point is that by the time he had gone back to Skyfire to clarify what information they held – given what appeared in his renewal quote (i.e. a record of the claim but recorded as "non-fault") – it was 16 February before Skyfire seem to have done what they promised on 10 February and removed the record.

It is beyond any doubt at all that the price of a car insurance policy will increase the closer the customer is to the renewal date on their existing policy. The experts appear to agree that the optimum time to seek competitive quotes for car insurance is around three or four weeks before expiry of the current policy. In most cases, prices rise very sharply in the last week or two before the renewal date.

So, X was always going to be at some sort of disadvantage when he renewed his policy. I'm satisfied that it wasn't unreasonable for Skyfire to have the claim record open until around 10 February. And that claim record being open would significantly affect the prices being offered. X therefore only had 7 days or so to test the market

and see what prices he could get after the claim was closed – some way short of the optimum three to four weeks.

I can see how that would be frustrating for X. It seems clear he wasn't involved in the alleged accident – there's absolutely no evidence at all to suggest he was. And yet the price of his insurance would increase because the claim was open until a week or so before renewal.

However, I can't hold Skyfire accountable for that. If there was an open claim, they are obliged to report it. And they are entitled to take it into account when they offer customers a quote.

There are two remaining issues here, however. One, the third party claim appears not to have been fully and properly removed from X's record until 16 February – six days after they told him it was to be deleted.

That cost X another six days before he could seek quotes from other insurers. Because in that time, he had to go back to Skyfire, having not unreasonably assumed that the record hadn't yet been fully deleted. And those six days would make alternative quotes from other underwriters very much more expensive.

That leads us to the second issue. In my view, it's not unreasonable for X to say that, by 16 February (the date of expiry of his current policy) he had no effective choice but to renew with Skyfire. Other quotes – obtained last minute – would undoubtedly be very high. And all would have been well, if his premium had at least not significantly increased from the previous year. Instead, it went up by just over £300 (or by around 70%).

This quite reasonably led X to conclude that Skyfire must have factored the seemingly spurious third party claim into the calculation. It's difficult to see – with another year's no claims discount too – how the sharp increase could otherwise be explained.

Skyfire have pointed out to us that their calculations of premiums to be offered on renewal – or indeed to new customers – are complex. A large number of factors will be taken into account and will impact the price offered.

These will include not only factors which are personal to the customer – whether they've had any recent claims, for example – but also more general data – for example, about the likelihood of claims being made by customers with certain makes or models of car, numbers of recent claims in a particular area or by drivers of certain ages etc.

I absolutely accept that. And as I've said, it's not for us to tell underwriters how to price their policies or what factors to take into account when making those calculations.

However, Skyfire haven't provided us with any indication of why X's premium rose quite so steeply. They tell us he changed his car in the previous year and that will have had an impact on the premium. I can see that, but it's clear that when X changed his car – only five months into his previous year's cover – the price rose by £26.80 for the year. For the remaining seven months, that's about £4 per month. And that makes an increase of about £48 for a full year. X's premium in fact went up by more than £300.

Skyfire have said that their underwriting calculations are so complex and multi-factorial that it's impossible for them to explain to us how and why X's premium has increased so sharply. They haven't pointed to any particular factors, used in the calculation, which have changed significantly when compared to their value or weighting the previous year.

So, X's increase in premium remains entirely unexplained. Skyfire are essentially asking us – and X – to take it on trust that the increase wasn't caused by the cancelled third party claim being taken into account in any way at all. But they haven't provided any alternative explanation as to how the increase was triggered.

I'm sure Skyfire will understand why I'm not going to simply accept that assertion without any supporting evidence or explanation at all. On the face of it, I can't see any immediate or convincing reason why X's premiums would have increased so steeply on renewal unless the third party claim has had some effect on the premium being charged.

This is a provisional decision, so Skyfire now have the chance to provide further information to explain the increased premium. To be clear, I don't need detailed calculations, and we don't need commercially sensitive algorithms to be set out in full. But I do need some indication as to what factors (other than the third party claim) caused the increase.

In the absence of any such explanation, I'm minded to uphold X's complaint. I'm also minded to require Skyfire to provide a refund on X's premium, so that it mirrors the premium he paid in the previous year (adjusted to account for the change of car, of course) – and to pay X £100 for his trouble and upset.

I fully understand that X's premium on renewal would not have exactly matched his previous year's premium, given the number of variables involved in Skyfire's calculations and the changes in X's circumstances (including an extra year's no claims discount).

However, Skyfire have pointed out that it's impossible now for them to recreate the calculation that would have been done when X renewed his policy, so I am left with making a best estimate. And the previous year's premium is not an unreasonable benchmark to take, especially since this was recalculated mid-way through the previous year when X changed his car."

And I said that for those reasons, I was minded to uphold X's complaint and to require Skyfire to refund the difference between his 2021/22 premium and the previous year's - and pay him £100 compensation for his trouble and upset.

The responses to my provisional decision

X replied to my provisional decision. He provided further evidence that if he'd sought insurance elsewhere early in 2021, he would have been given a similar price to the previous year's premiums, assuming he didn't declare the on-going claim.

Skyfire didn't provide any further information or evidence – or comment on my thinking - in response to my provisional 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.

The information provided by X in response to my provisional decision simply serves to further confirm my point that the increase in premium applied by Skyfire appears not to be explained by any other change in X's circumstances or in the general data used by Skyfire to calculate their pricing.

I can only assume Skyfire didn't respond to my provisional decision because they can't point to any change in X's circumstances or in the more general data that underpins their pricing decisions - other than the non-fault claim they still had on record when they quoted X their renewal price – to explain why X's premium increased so significantly.

I'm satisfied that my provisional decision invited Skyfire to provide any such explanation for the increase. And that it made it clear that if they could tell me what other factor(s) had caused the increase, I would re-consider the position.

In the absence of any such explanation from Skyfire, I don't think it's unreasonable to conclude, on the balance of probabilities, that the seemingly spurious third party claim was still included in Skyfire's records when they came to offer X a renewal price and that it was taken into account in the calculation of that price.

So, I haven't changed my mind about the outcome of X's complaint.

Putting things right

As I said in my provisional decision, it's not unreasonable to assume that if Skyfire hadn't taken the third party claim into account, they would have quoted X a renewal price at somewhere close to the same amount as his previous year's premiums.

X's premium in February 2020 was £435.95 (including a £50 administration fee). That was adjusted when he changed cars in July 2020, by around £4 per month. So, calculating the annual premium for the second car, that would amount to £483.95 (£435.95 plus £48).

Skyfire charged X £738.88 (again including a £50 administration fee) at renewal in February 2021.

So, they should pay X a refund of £254.93 (£738.88 minus £483.95). I'm going to add interest at 8% simple to this since X has in effect been deprived of that money since renewal on 17 February 2021.

And as I said in my provisional decision, I'm also going to require Skyfire to pay X £100 in compensation for his trouble and upset. He had the inconvenience of chasing Skyfire about the spurious claim still appearing in their records after 10 February 2021.

He's also had the stress and frustration of not knowing how the higher premium charged in February 2021 had been calculated and why it had increased so significantly. And the worry that it might be maintained at that level and might impact his future premiums.

My final decision

For the reasons set out above and in my provisional decision, I uphold X's complaint.

Skyfire Insurance Company Limited must:

- refund X £254.93 of the annual premium he paid in February 2021;

- pay 8% simple interest on that amount, from 17 February 2021 until the date the refund is paid to X; and
- pay X £100 in compensation for his trouble and upset.

Under the rules of the Financial Ombudsman Service, I'm required to ask X to accept or reject my decision before 14 March 2022.

Neil Marshall
Ombudsman