

The complaint

Mr J is unhappy because Great Lakes Insurance SE hasn't refunded a fair proportion of the premium, he'd paid for his travel insurance policy. He's also unhappy that he didn't get a cash refund, just a voucher.

All reference to Great Lakes includes its agents.

What happened

Mr J bought a single trip, comprehensive, travel insurance policy, underwritten by Great Lakes ('the policy'). The policy was taken out to cover a trip abroad which had been booked for 21 April 2020.

Mr J paid around £785 for the policy which included cruise plus cover costing around £50, insurance premium tax (IPT) - charged at 20% - and a discount of around £49.

Due to the impact of the Covid-19 pandemic Mr J's trip didn't go ahead. He wrote to Great Lakes in mid-April 2020 to cancel the policy.

Great Lakes ultimately offered Mr J a pro rata voucher refund - valid for 36 months (until June 2023) - that he could use against a new travel insurance policy in the sum of around £193.

Mr J didn't think that was fair so complained to our Service. One of our investigators looked at what had happened. She set out the details of the relevant cancellation rights and how they applied in the circumstances of this case. Our investigator also explained that it's 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.

Our 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 at the start of March 2020 and the policy covered various risks during that time.

Our investigator acknowledged the unique and unprecedented circumstances of Covid-19. And having considered everything she partially upheld. She recommended Great Lakes pay a pro-rata refund of the premium paid for the policy from 16 April 2020 (by way of voucher). Mr J didn't agree with our investigator. He wanted a cash refund of the premium he'd paid for the policy. Great Lakes didn't object to our investigator's view. And, in light of her recommendation, it calculated that it would pay a voucher to Mr J for the increased sum of around £290 (representing 21 unused days).

This complaint has now been passed to me to decide to look at everything afresh 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, I partially uphold this complaint and direct Great Lakes to issue a voucher to Mr J but, in the sum of around £290, to represent a pro-rata refund of the premium he paid for the policy rather than the amount originally offered by Great Lakes. 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.

Is Mr J entitled to a refund of the premium paid for the policy?

The terms and conditions of the policy set out Mr J's cancellation rights under the contract. These 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'.

I've taken on board Mr J's point that given a choice he would've cancelled the policy within 14 days but didn't. Ultimately, the policy was cancelled outside the cooling off period and so there's no requirement under the relevant industry rules and guidelines for Great Lakes to offer a full refund to Mr J. As I've outlined above, the contract of insurance says that where cancellation is more than 14 days after payment of the premium, no premium will be refunded except in exceptional circumstances. But I don't think it would be fair to ask Great Lakes to exercise the discretion it has, under the terms of the policy, in the circumstances of this case to refund the premium Mr J paid for the policy.

I'm not persuaded that the Covid-19 global pandemic amounts to 'exceptional circumstances' akin to two examples in the policy term referred to above. And I don't think the impact of the global pandemic, which affected many of Great Lakes' policyholders, is one which this term is intended to cover.

But I'm conscious that Mr J's need for the policy changed due to circumstances outside of his control; because the trip didn't go ahead as a result of Covid-19. So, I've considered whether it would still be fair and reasonable to ask Great Lakes to depart from industry rules and the policy terms in the circumstances of this case – particularly given the extraordinary and unexpected circumstances surrounding the pandemic.

I know Mr J says that Great Lakes should've offered a full monetary refund of the policy premium. But Covid-19 – and its global impact - couldn't have been anticipated and foreseen. And whilst it was outside of the control of Mr J, it was also outside of Great Lakes' control.

Further, Covid-19 didn't make it impossible for Mr J's contract with Great Lakes to be performed – or for him to have benefitted from the policy. That's because Mr J wasn't just insured for the dates of travel. Cover started at the start of March 2020. And, subject to the remaining terms of the policy, I'm satisfied that the price Great Lakes charged Mr J for the policy also covered him from the start of the policy should he have needed to cancel his trip for any number of the insured events under the policy.

So, Great Lakes had assumed the risk of Mr J making such a claim from the date the policy started until his trip was cancelled; which Mr J says was around 16 April 2020. And, as also explained by our investigator, it's a fundamental principle of insurance law that if the insurer had started to bear the risk concerned – for however short amount of time – the premium paid is not returnable.

I'm therefore not persuaded that it's unfair for Great Lakes to retain any premiums relating to the risk it covered up until the point his trip was cancelled. But once the trip was cancelled due to the pandemic, Great Lakes was no longer carrying the risk of the trip being cancelled for any of the other insured reasons set out in the policy, before the start of trip. And Great Lakes hasn't paid a claim in relation to Mr J's trip being cancelled; the cost of the trip was refunded by a third party.

Also, as the trip was no longer going ahead, Great Lakes was no longer carrying the risk of any claim being made while Mr J was abroad. So, in light of this, and based on the unique and unprecedented circumstances surrounding the Covid-19 pandemic, I'm persuaded it's fair and reasonable for Great Lakes to provide Mr J with a pro-rata refund of the premium he paid for the policy from 16 April 2020.

The offer of a voucher

When considering whether Great Lakes should've offered a pro-rata monetary refund of the premium or by way of voucher, I've considered what would be fair and reasonable to both parties.

Mr J paid a premium in return for Great Lakes' acceptance of the risk of a valid claim occurring under the policy during the period of cover. Offering a refund by way of a voucher means the risk Great Lakes had agreed to accept is simply moved to a future date. And I think it's reasonable for Great Lakes to offer a voucher as an alternative to a monetary refund in such circumstances - so long as the terms of the voucher offered are fair and reasonable.

I don't think the terms of the voucher in this case are overly restrictive. The voucher is valid for 36 months and can also be used to buy a single trip or annual, multi-trip, travel insurance policy.

I've taken into account Mr J's age and his comments that he has "done all the long-haul bucket trips I want to". But that doesn't mean that he won't travel again and it's possible the voucher will be of some use to him. Further, even if he doesn't travel abroad again, Great Lakes has confirmed that the voucher is also fully transferrable. So, although Mr J says he wouldn't recommend Great Lakes, if the voucher isn't used by Mr J within the 36 months' timeframe for which it's valid, it can be used by someone else – if Mr J chose to gift the voucher to a friend or family member, for example. So, in the circumstances of this particular case, I'm not persuaded Great Lakes should pay a pro-rata monetary refund to Mr J instead of a voucher.

The voucher's value

When calculating the policy premium Great Lakes doesn't distinguish between pre-travel cancellation and post-departure cover. Rather, the premium charged is split equally across the whole period of cover. As our investigator explained, an insurer is entitled to decide the way in which it calculates policy premiums, considering factors such as its previous claims experience, its assessment of the likelihood of claims arising and its own commercial interests. That's if it treats each customer fairly when doing so.

Given Great Lakes' explanation, I'm satisfied there isn't a material unevenness in the prevalence of risk across the life of its single travel insurance policies. I'm also persuaded that Great Lakes hasn't treated Mr J unfairly, or any differently, to other customers in similar circumstances by calculating the premium in this way.

The value of the voucher offered to Mr J has been calculated considering his unused period of standard travel insurance cover. The policy covered Mr J for around 67 days from the date the policy started to the date it was due to expire. And the premium he paid for the policy was representative of the time cover was in place for.

Great Lakes wasn't covering any further risk under the policy from the date Mr J's holiday was cancelled on or around 16 April 2020. So, I'm satisfied Great Lakes should recalculate the value of Mr J's voucher from that date to 6 May 2020 (21 days in total) based on the standard premium paid and then add on the amount paid for cruise plus cover (plus insurance premium tax of 20% on that amount).

Mr J was given a discount at the point of sale. However, I think the way Great Lakes has applied the discount to the calculation of the voucher has unfairly disadvantaged Mr J. Based on everything provided to me, in simple terms, Great Lakes should 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've seen the refund calculation formula originally used by Great Lakes before the date of our investigator's view and I don't agree this leads to a fair and reasonable outcome in the circumstances of this complaint.

Putting things right

Within 28 days from our Service confirming to Great Lakes that Mr J accepts my final decision, I direct Great Lakes calculate the value of Mr J's voucher based on a pro-rata refund of the premium paid for the policy from 16 April 2020.

Based on everything provided to me, in simple terms, Great Lakes should calculate the refund by dividing the actual price paid for the policy by the total cover length (in days) multiplied by days not on risk and then adding on £60.43 which is the amount paid for cruise plus cover including IPT.

Alternatively, if Great Lakes has already issued Mr J a voucher to the value of around £193 it initially offered after he first complained to Great Lakes, I direct it to issue Mr J with a further voucher for the difference between the value of that voucher and the recalculated amount (which I understand is around £290).

My final decision

I partially uphold Mr J's complaint. And I direct Great Lakes Insurance SE to put things right by doing what I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 22 August 2022.

David Curtis-Johnson
Ombudsman