

The complaint

Mr and Ms P complain about how Great Lakes Insurance SE dealt with their request for a refund of the premiums they paid for an annual multi-trip travel insurance policy.

What happened

Mr and Ms P purchased an annual-multi trip travel insurance policy, provided by Great Lakes. The policy was purchased on 31 January 2020, to cover any trips of up to 35 days duration taken within Europe. The policy started on 1 February 2020 and ended on 31 January 2021.

Mr and Ms P paid £106.90 excluding Insurance Premium Tax (IPT) for the standard level of annual multi-trip travel insurance cover, which also covered them for a number of declared medical conditions. They received a discount of £23.10 at the point of sale. In total, Mr and Ms P paid £105.19 for their policy including IPT.

On 27 October 2020, Mr and Ms P contacted Great Lakes to request a refund of their travel insurance premium because they said they'd been unable to travel as they'd intended due to the Covid-19 pandemic. They also requested an extension of their policy in the alternative.

Great Lakes said it couldn't extend Mr and Ms P's policy. And it informed them that a full refund couldn't be provided as their "cooling off" period had expired. It said that, under the terms of their policy, no refund was due. But it offered a credit voucher pro rata refund of £10.90, which it said could be to purchase either a deferred annual policy, a new policy of 15 months for the price of 12 or a UK only annual multi trip policy in the alternative. Great Lakes also offered Mr and Ms P a 20% discount off the basic premium of any new policy.

Being dissatisfied with Great Lakes' offer, Mr and Ms P complained to our service. After they referred their complaint to us, Great Lakes increased the value of the credit voucher from £10.90 to £27.88.

Mr and Ms P's complaint was considered by our investigator, who acknowledged the unique and unprecedented circumstances of Covid-19. They 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.

Our investigator explained that Covid-19 didn't make it impossible for the contract of insurance to be performed because cover under the policy started on 1 February 2020 and the policy covered various risks during that time. And they didn't recommend upholding this complaint as they thought Great Lakes' offer to settle Mr and Ms P's complaint was fair and reasonable.

Great Lakes agreed with our investigator's view of this complaint. But Mr and Ms P didn't. They requested an ombudsman's assessment. I've therefore been asked to decide what is a fair and reasonable way of resolving this complaint.

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.

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".

Are Mr and Ms P entitled to a full refund of the premium?

Like our investigator, I don't think it's fair and reasonable for Mr and Ms P to receive a refund of the premiums they paid because:

- Cover under their policy commenced on 1 February 2020, which is confirmed by the insurance validation certificate they received. I'm satisfied Mr and Ms P 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.
- Mr and Ms P didn't contact Great Lakes to discuss a refund of their policy until 27 October 2020. And they didn't request the cancellation of their policy at any time. Even if they had done during their conversation on 27 October 2020, this would have been outside the cooling off period. So, there wouldn't have been a requirement under the relevant industry rules and guidelines for the insurer to offer a refund. I say this because 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.
- 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 understand why any travel plans which Mr and Ms P might have had during the policy year changed due to circumstances beyond their control. So, I've thought about whether it would be fair and reasonable to ask Great Lakes to depart from industry rules and the terms and conditions of Mr and Ms P's contract because of the exceptional and extraordinary circumstances surrounding Covid-19.
- Covid-19 was an unanticipated and unforeseen event, outside of the control of both parties to the insurance contract. However, Covid-19 didn't make it impossible for Mr and Ms P's contract with Great Lakes to be performed – cover under the policy started on 1 February 2020.

- Mr and Ms P were insured from 1 February 2020 for travelling on any number of trips of up to 35 days duration which they may have taken until the policy expired. They've said they didn't have the opportunity of travelling due to the pandemic. But, because of the way annual multi-trip insurance policies work, an insurer has no way of knowing how many such trips a policyholder has taken since their policy was inception.
- The price set by Great Lakes covered Mr and Ms P for cancellation of any holidays which they had booked and were due to take from 1 February 2020 until 31 January 2021. So, they would have been covered if they'd had to cancel any number of holidays because of any listed events insured under the policy including, for example, them falling ill with a declared pre-existing medical condition.
- So, Great Lakes covered the risk of Mr and Ms P making a successful cancellation claim for any number of pre-booked holidays, or the risk of travelling on any number of holidays, from 1 February 2020 until 31 January 2021. It's a fundamental principle of insurance law that, if the insurer had commenced to bear the risk concerned – for however short a time – the premium paid is not returnable. So, regardless of what Mr and Ms P's cancellation rights were, it isn't unfair for Great Lakes to retain any premiums relating to the risk it covered.

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

- I've already explained the reasons Great Lakes wasn't obliged to refund any premium to Mr and Ms P. But it used its discretion to initially offer them a 20% discount towards the cost of another travel insurance policy together with a credit voucher in the sum of £10.90.
- Following Mr and Ms P referring their complaint to our service, Great Lakes agreed to increase its credit voucher refund offer. It isn't prepared to offer a cash settlement.
- Great Lakes has stated that the voucher is valid for use within 36 months and is also transferrable. Our service would typically view a voucher 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 and the terms of use aren't unreasonably restrictive.
- I can appreciate why Mr and Ms P may prefer a pro-rata monetary refund as an alternative to a credit voucher. They've said they spent some of the pandemic shielding and I can see that they declared pre-existing health conditions when they took out the policy. But they were prepared to travel in 2020 with the health conditions they declared to Great Lakes. And I haven't seen any evidence to suggest that their health has deteriorated to the point that it might preclude future travel.
- 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 Ms P because of the unanticipated and unforeseen events surrounding the global Covid-19 pandemic.

Is the calculation of the refund fair and reasonable?

- I've carefully looked at whether the amount offered by Great Lakes to Mr and Ms P was fair and reasonable.

- As I mentioned in the background to this complaint, Mr and Ms P contacted Great Lakes on 27 October 2020 to request a refund of their policy premium. By this time, their policy had 97 days left to run before it expired.
- Mr and Ms P don't think the refund they've been offered is fair. But I think Great Lakes has acted reasonably here because it's treated the date Mr and Ms P first contacted it in the same way it would have done had they requested the cancellation of their policy at that time.
- I've already explained that Mr and Ms P didn't cancel their policy at any time. So, it wouldn't be unreasonable for Great Lakes to decline to refund any of the premium Mr and Ms P paid.
- If Mr and Ms P had requested that Great Lakes cancel their policy on 27 October 2020, they'd have been on cover for around 269 days. Initially Great Lakes offered to refund Mr and Ms P £10.90 by way of a credit voucher. However, after they referred their complaint to our service, it offered to increase the credit voucher to £27.88. This presents a change in Great Lakes' initial proposed resolution to Mr and Ms P's complaint.
- I've carefully checked the calculation Great Lakes has provided. And I'm satisfied it's correct. I say this because I've seen evidence showing that the refund amount offered was based on the length of time Mr and Ms P's policy had left to run at the time they contacted Great Lakes to discuss a refund – even though they didn't cancel their policy at that point and Great Lakes therefore continued to bear a risk until 31 January 2021.
- I understand Mr and Ms P rejected Great Lakes' settlement offer. Had they accepted it, this would have resulted in Great Lakes cancelling Mr and Ms P's policy, which still had just over 3 months left to run. Great Lakes has confirmed that the refund it offered is still available to Mr and Ms P if they wish to accept it. I think the revised offer Great Lakes made after Mr and Ms P referred their complaint to our service is both fair and reasonable. So, I'm persuaded that Great Lakes should send Mr and Ms P a credit voucher in the sum of £27.88 to resolve this complaint.

Putting things right

To resolve this complaint Great Lakes should refund Mr and Ms P £27.88 by credit voucher for the reasons outlined above

My final decision

My final decision is that I uphold this complaint in part. To resolve Mr and Ms P's complaint, 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 P and Ms P to accept or reject my decision before 13 June 2022.

Julie Mitchell
Ombudsman