

The complaint

Mr C is unhappy that New India Assurance Company Limited (New India) charged him a cancellation fee when he cancelled his car insurance policy.

What happened

On 4 March 2021, Mr C purchased a car insurance policy through a broker for £520.59. Shortly after, he submitted proof of his no claims discount but unfortunately it wasn't accepted as the no claims discount was accrued on a fleet insurance policy.

As Mr C's proof of no claims wasn't accepted, he asked to cancel his policy on 12 March 2021. He received a refund of £418.18 after a deduction of a £52.50 new business arrangement fee, £45 cancellation fee and £4.91 for time on cover.

Unhappy with the refund amount, Mr C raised a complaint. The complaint was handled by the administrators of the policy on behalf of New India – but for ease of reading I'll refer only to New India in my decision.

Mr C said that he wasn't made aware of these fees, and neither was it made clear to him that no claims discount on a fleet insurance policy wouldn't be accepted. He was also dissatisfied with the customer service he received.

New India said that all fees are explained prior to the purchase of the policy and that the cancellation fees have been applied correctly in line with the terms and conditions.

Our investigator said that Mr C had been charged a cancellation fee twice - £52.50 by the broker and £45 by New India. He didn't think it was fair for Mr C to pay two cancellation fees and felt that New India should refund the charge they applied of £45.

New India initially accepted the investigator's recommendation, but then stopped engaging with our service. Although New India or Mr C didn't ask for an ombudsman's decision, this is usually the next step in our process in these circumstances. Since the complaint couldn't be resolved, it has been passed to me for a decision.

What I had provisionally decided – and why

I issued a provisional decision on 8 June 2020, and I made the following findings:

Firstly, I think it's important to set out that I'm only considering Mr C's complaint about the cancellation fee of £45 in reaching my decision here. This is because as the insurer New India is responsible for this aspect of Mr C's complaint.

We're considering Mr C's concerns about the new business arrangement fee of £52.50 against the broker. This is because the new business arrangement fee isn't the same as a cancellation fee. It is a brokerage fee charged by the broker and not New India.

The broker sold the policy, so they're also responsible for Mr C's concerns about the sales process and the customer service issues he experienced when dealing with them.

As explained, these complaint points are being considered under a separate complaint with our service. And since it's not relevant this complaint against New India, I won't be commenting on it here any further.

The regulations that apply to this complaint are set out in the Insurance Conduct of Business Sourcebook (ICOBS).

ICOBS 7 explains that general insurance policies have a 14-day cooling off period. If a consumer cancels during this period, then they can be charged:

- a pro-rata premium for the time the policy was in force; and*
- an administration fee which is proportionate to the service provided, with no element of profit.*

Mr C purchased his policy on 4 March 2021 and cancelled his policy on 12 March 2021. This was within the 14-day cooling off period. Since the policy was in force from 8 March 2021 until 12 March 2021, New India are entitled to charge Mr C a pro-rata premium for this period, which appears to be correctly calculated at £4.91. So, I won't be asking New India to refund this.

A consumer can only be charged a fee for the administration involved in cancelling a policy if they were made aware of this while they were buying the policy.

I've seen a screenshot of the page Mr C would've seen before he purchased the policy. This has hyperlinks to the terms and conditions, policy wording, policy information and privacy policy. Mr C had to tick a box confirm he agrees to the information in these documents before proceeding to click 'Buy now'.

On page 2 of the terms and conditions, a table clearly sets out all the charges that may apply to Mr C's policy. This explains that a £45 fee will be charged for cancellation within the 14 days from purchase, and if cancelled after 14 days, a £75 fee would apply.

I'm satisfied Mr C was reasonably made aware that a cancellation fee would apply if he cancelled the policy, and therefore they can charge him a fee for the administration involved.

I'm afraid I can't fairly hold New India liable if Mr C didn't read the information before he ticked the box to confirm that he agreed and proceeded to purchase the policy.

As I've explained above, New India can only charge Mr C a fee to cover the cost of setting up and cancelling the policy. However, they haven't provided us with a breakdown of costs or an explanation to justify charging £45 – which I'd expect a business to be able to do.

I've checked online to see what other providers charge as a proportionate administration fee for cancelling within the cooling off period. This typically tends to be around £25. But a business can charge more as the fee is proportionate to the service and costs incurred, which will be different from business to business.

In the absence of evidence from New India to explain their costs, I can't fairly agree that the fee of £45 is proportionate to the service provided without any element of profit.

That said, it doesn't mean Mr C shouldn't be charged a fee at all. As explained, New India made it clear to him that a fee would apply to cancel the policy and they would have incurred some costs in the administration of the cancellation. Based on the available information and taking into account the likely administration costs involved in setting up and cancelling a policy, I think it's fair and reasonable for New India to apply a fee of £25 – the average fee for cancelling within the cooling off period – instead of £45.

In summary, to put things right, New India should:

- *Refund Mr C £20; and*
- *Add 8% simple interest per annum from 12 March 2021 until the date of settlement.*

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.

I invited both parties to respond to my provisional decision with any further submissions.

Mr C agreed with my findings and didn't have anything to add. New India haven't responded within the deadline given.

Since the parties haven't provided any further comments or information, there isn't anything else for me to consider. I'm satisfied with the findings I reached in my provisional decision.

Putting things right

New India should:

- Give Mr C a refund of £20;
- Add 8% simple interest* per annum from 12 March 2021 until the date of settlement.

*HM Revenue & Custom requires New India to deduct tax from this interest. New India must give Mr C a certificate showing how much tax they've taken off, if he asks for one.

My final decision

For the reasons I've given, my final decision is that New India Assurance Company Limited should settle the complaint in the way I've set out above.

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

Ash Weedon
Ombudsman