

The complaint

G – a limited company – is complaining that Brightside Insurance Services Limited (trading as CVD) cancelled its commercial vehicle insurance policies. G is also complaining that CVD gave it incorrect information about the amount it would have to pay after the policies' cancellation.

What happened

In March 2021 G took out two annual motor insurance policies through CVD – a broker – to cover its vehicles. G wanted to pay the annual premium in monthly instalments. The insurer required the annual premium to be paid upfront, so, to enable it to pay the premium in instalments, G entered into a finance agreement provided by another company – who I shall refer to as C. C paid the premium on G's behalf and G agreed to repay C in line with the terms of the finance agreement.

However, G's monthly instalments for November and December bounced. G paid the November payment manually, but didn't make up the December payment. So C cancelled the finance agreement in January 2022 leaving an outstanding balance to pay.

In February 2022 CVD contacted G to say it would cancel the insurance policies if G didn't pay the amount due. G discussed this with CVD but CVD ultimately ended up cancelling the policy. G didn't think this was fair and also complained CVD had given incorrect information about the amount still outstanding on the finance agreement – CVD said G would owe around £300, but it later said G owed around £500. CVD agreed it had given incorrect information because it said it hadn't taken into account that G had been given a payment holiday in April 2021 and it had been agreed that the deferred payment would be added to the end of the finance. So it offered G £50 in compensation. But it didn't think it had acted unfairly in cancelling the insurance policy.

Our investigator upheld this complaint as she didn't think it was fair for CVD to have cancelled the insurance policy when it did as she thought G was actively engaging with CVD around the outstanding debt. She also thought the cost of cancellation was more than the refund the insurer gave. So cancelling the policy put the consumer in a worse position. The investigator thought CVD should refund the admin charges G was charged when the policy was cancelled.

CVD didn't agree with the investigator because it said the terms of the policy allowed it to cancel the insurance policy where payments are missed to enable it to prevent the debt from increasing.

As CVD didn't agree with the investigator, the complaint's been passed to me 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.

I've decided to uphold this complaint and I'll now explain why.

I do not dispute that the terms of the insurance policy set out that CVD can cancel the policy where the policyholder misses payments or the finance agreement is cancelled. But CVD should exercise this right fairly and reasonably.

It's important to note that the annual premium is paid to the insurer upfront, so the insurer is not out of pocket where the policyholder misses payment. In not making payments, the consumer is breaching the terms of the finance agreement – not the insurance policy. So it's the finance provider – in this case C – who loses out where monthly payments aren't made. I think the purpose of the right to cancel the insurance policy where a payment is missed is to obtain a refund of premium to reduce the amount owed on the finance agreement.

But in this case, the premium refunds on the two policies were £66.95 and £64.39 respectively. However, the administration charge for cancellation on each policy was £110 – i.e. more than the refund received. Further to this, CVD also made an additional charge for lost commission. So, in cancelling the policies, CVD actually increased the amount G owed rather than reduced it.

CVD has said it can cancel the policy to prevent the debt increasing. But, as I said, its act in cancelling the policy did precisely the opposite of what it wanted to achieve as it increased the size of G's debt. And, given C had already cancelled the finance agreement, the debt wouldn't have increased if the policies stayed active. So it follows that I don't think CVD acted fairly in cancelling the insurance policy as it put G in a worse position than it was before. Instead, it should have engaged with G – on C's behalf – to arrange a suitable repayment plan to assist G in repaying the amount due and allowed the insurance policy to continue until the end.

The investigator has also said CVD shouldn't have cancelled the insurance policy whilst G was still engaging with it about repaying the debt. For the avoidance of doubt, I agree with what the investigator has said regarding this, but I don't need to expand further on this as I've already said that I don't think it should have cancelled the policy for the reasons I've set out above.

Putting things right

I think CVD should refund the costs of cancellation – i.e. cancellation charges (£220), administration fees (£40) and lost commission charges (£12.89) as G wouldn't have been charged these had CVD not cancelled the insurance policy. If G hasn't paid the outstanding debt, CVD can use this amount to reduce the debt. However, if G has paid this, CVD should pay this to G directly. It should also pay 8% simple interest on this amount from the date G paid it until it gets it back. If CVD thinks that it's required by HM Revenue & Customs to deduct tax from that interest, it should tell G how much it's taken off. It should also give G a tax deduction certificate if it asks for one, so it can reclaim the tax if appropriate.

CVD should provide a letter to G setting out that the policy was cancelled in error and confirming that G doesn't need to disclose this cancellation to future insurers.

Finally, CVD has offered G £50 in cancellation for the inconvenience G has been caused. I think that's fair compensation and CVD should pay this to G directly.

My final decision

For the reasons I've set out above, it's my final decision that I uphold this complaint and I require Brightside Insurance Services Limited to compensate G in line with my instructions

above.

Under the rules of the Financial Ombudsman Service, I'm required to ask G to accept or reject my decision before 5 January 2023.

Guy Mitchell
Ombudsman