

The complaint

Mr C is complaining that U K Insurance Limited (UKI) cancelled his car insurance policy.

What happened

In September 2022 Mr C missed a monthly payment on his finance agreement that he took out to pay the annual premium for his car insurance policy. UKI wrote to him asking him to pay the payment within 14 days or it would cancel the insurance policy. Mr C didn't do so, so UKI cancelled the policy. As Mr C had previously made a claim on his insurance policy, UKI said Mr C needed to pay the full annual premium.

Mr C called UKI after the policy was cancelled to pay the missed payment. He said he'd been on holiday and hadn't received the letter UKI had sent. He asked UKI to reinstate the policy, but it wasn't willing to do so.

Our investigator thought UKI had acted unfairly in cancelling the insurance policy. She said it should have been aware that Mr C wasn't entitled to a premium refund. She thought cancelling an insurance policy should be a last resort – only after exploring other options available to support a consumer in financial difficulties. And she said cancelling the insurance policy in this instance had put Mr C in a worse position.

UKI maintained that the terms of the insurance policy entitled it to act as it did. And it also highlighted that Mr C had a poor payment history.

As UKI 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 think it would first be helpful to set out the respective contracts Mr C took out. He firstly took out a car insurance policy provided by UKI where he had to pay an annual premium. The full annual premium was due at the start of the policy, but Mr C wanted to pay in monthly instalments. To enable him to do so, Mr C also entered into a fixed sum loan agreement – also provided by UKI. The finance agreement essentially paid the annual premium on Mr C's behalf and Mr C then agreed to repay this finance over 12 months in line with the terms of the finance agreement.

UKI has cancelled the insurance policy because Mr C missed the September 2022 monthly payment. And it's said the terms of the insurance policy entitled it to do so. I don't dispute the terms of the policy allowed UKI to cancel the insurance policy in these circumstances, but it needs to exercise that term fairly and reasonably. And, in thinking about this, I've particularly thought about the purpose of this term.

It's important to note that Mr C was in breach of the terms of the finance agreement – not the

insurance policy – when he failed to make his monthly payment. The FCA has set out in its Consumer Credit Sourcebook (CONC) how it would expect finance providers to act where consumers fall into arrears – in particular in CONC 7.3. I would expect a finance provider to consider these options before immediately terminating a finance agreement.

UKI said that Mr C had a poor previous payment history which is why it went down the avenue it did and I recognise that. But I would still think, due to the significant implications of cancelling an insurance policy, cancellation should be a last resort and I would have expected UKI to have considered CONC 7.3 first.

A finance provider will instruct the insurance provider to cancel the insurance policy to generate a premium refund which it will use to reduce the balance on the finance agreement. I think this is the purpose of the term allowing UKI to cancel the insurance policy. But in this case, UKI should have considered that Mr C had made a claim on the insurance policy. The terms of the policy set out that no premium refund is payable in these circumstances. This means that cancelling the insurance policy didn't reduce the amount Mr C owed on the finance agreement. It ultimately put him in a worse situation as he needed to pay the finance in full, but also needed to pay another annual premium to take out a new insurance policy.

So I think it was unfair for UKI to cancel the insurance policy. And I think Mr C has unfairly lost out as a result as he had to pay to take out a new insurance policy which he wouldn't have had to do had UKI not cancelled the policy. So I think UKI should refund what Mr C paid for this policy. The investigator also thought UKI should pay £100 in compensation for the distress and inconvenience this matter has caused Mr C and I think that's fair.

My final decision

For the reasons I've set out above, it's my final decision that I uphold this complaint and I require U K Insurance Limited to do the following to put things right:

1. Remove all record of the policy's cancellation from Mr C's record;
2. Refund the amount Mr C can show he paid for the replacement policy plus 8% simple interest per year on this from when Mr C paid it until he gets it back. If UKI thinks that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr C how much it's taken off. It should also give him a tax deduction certificate if he asks for one, so he can reclaim the tax if appropriate.
3. Pay Mr C £100 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 3 July 2023.

Guy Mitchell

Ombudsman