

## **The complaint**

Ms J complains about the amount by which AA Underwriting Insurance Company Limited reduced her No Claims Bonus (NCB) following a claim on her motor insurance policy. She wants her NCB stepped back by two years.

## **What happened**

Ms J made a claim on her policy when her car was vandalised. AA recorded this as a fault because it couldn't recover its outlay. And it reduced Ms J's NCB from nine or more years to four. It said this was in keeping with the policy's terms and conditions. Ms J said if this had been brought to her attention at the outset, then she wouldn't have bought the policy. AA said it wasn't obliged to tell consumers who hadn't protected their NCB about its step back process at the point of sale. And Ms J thought the recording of a fault claim was unfair. She thought it should be recorded as "unrecoverable loss".

### *our investigator's view*

Our Investigator didn't recommend that the complaint should be upheld. He thought the recording of a fault claim when an insurer's losses weren't recovered was standard industry practice. He thought the reduction made by AA was unusual but that it was sufficiently brought to Ms J's attention when she renewed the policy. So he thought AA hadn't done anything wrong.

Ms J replied that AA should have told her about the NCB step back process when she bought her policy and before she made the claim. Ms J asked for an Ombudsman's review, so her complaint has come to me for a final decision.

### *my provisional decision*

After considering all the evidence, I issued a provisional decision on this complaint to Ms J and to AA on 17 April 2023. I summarise my findings:

Our Investigator explained that it's standard industry practice to record a claim as "fault" when an insurer can't recover its outlay. Ms J made a claim following vandalism. AA couldn't recover its outlay, even though I could see that the alleged vandal was being prosecuted. I could see that this was explained on page 17 of her policy booklet. So I'm satisfied that the claim was correctly recorded as a fault on Ms J's driving history.

I could understand that Ms J felt this was unfair. But it's not my role to make recommendations for the industry as a whole. My role is to consider whether AA responded to Ms J's complaint fairly and reasonably. And I thought it had done so on this point.

Ms J was also unhappy about the reduction in her NCB. AA said it relied on the policy's term and condition that stated that when a policyholder has nine or more years of NCB, this will be reduced to three years if the NCB is unprotected, and the claim has been settled as 'fault'.

I thought this was an unusual term and condition in motor insurance policies. This was because most insurers will reduce NCB by two years in the event of a fault claim. I looked at examples of other insurers' step back procedures. And I could see that in each example, where the consumer had the maximum NCB allowed, the step back for one fault claim was

two years. AA's maximum NCB allowed was nine years. So, to be consistent with industry standards, this would be reduced back to seven years in the case of one fault claim.

And so I thought AA's step back process was unusual as it was out of keeping with industry standards. And I thought it had a potentially significant impact for consumers. So I would expect it to be made clear at the point of sale and to be clearly set out in the policy wording so that a consumer could understand the process before they bought the policy and so decide whether it suited their needs.

So I didn't agree with AA when it told Ms J that it didn't need to make consumers aware of the step back process at the point of sale unless they bought NCB protection. But from what I could see it did make Ms J aware of this process when she bought her policy.

I looked at the online journey Ms J made when she bought her policy. I could see that she bought her policy through an online comparison site. During the application, Ms J was given the option of adding NCB protection. The benefits were explained and a table showing the step back process was provided. This stated that the step back for a consumer with nine years or more NCB would be to three years following one fault claim. So I thought sufficient information was provided to Ms J before she bought her policy.

Ms J went ahead with the purchase and AA sent out her policy documents. I expected AA to specify in the policy documents what its maximum NCB allowance was, and what the reduction would be in the event of a fault claim. NCB was explained on page 17:

*"If a claim has been made or arisen under this insurance in any one period of insurance Your No Claim Discount will be reduced at the next renewal in accordance with the Insurer's 'step back' scale applicable at the time of renewal (usually to the equivalent of 0, 1 or 2 years) subject to any No Claim Discount Protection condition that may apply to this insurance."*

So the policy documents didn't specify what the maximum NCB allowance was. And the step back process described very sketchily was different to AA's step back process where the reduction is to three years for one fault claim. AA in fact reduced Ms J's NCB to four years without any explanation.

So whilst AA's step back process was sufficiently explained in the sales process, I wasn't satisfied that it was made sufficiently clear in the policy documents. And I didn't think it was reasonable for AA to rely on just the pop up screen on the sales journey to explain the process as the consumer wouldn't necessarily retain this detail.

So I wasn't satisfied that AA provided clear, fair and not misleading documentation about the NCB step back process. I thought that if Ms J had been made fully aware of the step back process she would have acted differently. I thought she may have considered buying NCB protection or bought elsewhere a policy that better suited her needs.

So I thought it was fair and reasonable for AA to either reduce Ms J's NCB entitlement to seven years (in keeping with its maximum of nine years being recognised), or to apply NCB protection retrospectively to the policy and charge Ms J for the resulting increase in premium. I thought it should reasonably allow Ms J to decide which of the options she preferred. Ms J could then ask her current insurer to re-rate her policy.

I also thought AA gave Ms J incorrect information about the explanation of NCB step back in its sales process. And I thought it'd caused her frustration and trouble in getting things put right. I thought it should pay her £150 compensation for this, in keeping with our published guidance.

Subject to any further representations from Ms J and AA, my provisional decision was that I intended to uphold 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.

AA didn't reply to my provisional decision. Ms J replied saying that she accepted it, but she asked for consideration to be given to the premium increase caused by her decreased NCB. But, as I've said above, I think it's for Ms J to ask her current insurer to rerate her current policy based on her corrected NCB.

So, I'm satisfied that I've not received any representations to cause me to change my provisional decision.

### **Putting things right**

I require AA Underwriting Insurance Company Limited to do the following:

1. Pay Ms J £150 compensation for the distress and Inconvenience caused by its unfair documentation; and either
2. Reduce Ms J's NCB entitlement to seven years (in keeping with its maximum of nine years being recognised); or, if Ms J prefers
3. Apply NCB protection retrospectively to the policy and charge Ms J for the resulting increase in premium.

### **My final decision**

For the reasons given above, my final decision is that I uphold this complaint. I require AA Underwriting Insurance Company Limited to carry out the redress set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 7 June 2023.

Phillip Berechree  
**Ombudsman**