

The complaint

Mr B has complained about the refund of premium he received when he cancelled his Learners Motor Insurance policy with Collingwood Insurance Company Limited. And the fact that he was charged a £40 cancellation fee.

The cancellation fee was charged by Mr B's insurance broker, not by Collingwood, so I have not considered this aspect in this decision.

Mr B is represented by Mrs D.

What happened

Mr D took out the policy with Collingwood. He paid £205 for the policy, which included a £70 broker fee. Overall, he paid £242, but £37 of this was for a separate breakdown assistance policy. I've assumed this is with a separate insurer and I understand there is no refund due for this policy on cancellation.

Around eight months into the policy term Mr B passed his driving test. Mrs D contacted his insurance broker to let it know Mr B had passed his test. It told her Mr B's policy would have to be cancelled. It then let her know that this meant Mr B owed them £26.50. Mrs D was surprised by this, as she had expected Mr B to get a refund.

Mrs D complained to both Mr B's broker and Collingwood on his behalf. She said Mr B was unhappy that he had £26.50 left to pay and that he was forced into cancelling the policy.

Collingwood issued a final response letter on the complaint to Mrs D. In this it provided a breakdown of the charges for Mr B's policy. This showed Mr B had only received a refund of 10% of the premium, despite the policy being cancelled about 70% of the way through its term. It also showed his broker had charged a £70 fee for arranging the policy and a £40 fee for cancelling it. Collingwood didn't uphold Mr B's complaint. In doing so it said it was satisfied that the premium refund it had provided was in line with the policy terms. It also said it was satisfied that all the necessary information was provided to Mr B when he took out the policy to enable him to make an informed decision on whether it was suitable for him.

Mrs D asked us to consider Mr B's complaint. She said she didn't think it was fair that Mr B had been charged 90% of the premium when he'd only had the policy around eight months. She explained that she thought the policy term setting out the refunds due if the policy was cancelled was unfair.

One of our investigators considered Mr B's complaint. He said that he didn't think the refund provided by Collingwood was fair on the basis it didn't represent the spread of risk under Mr B's policy. He said Collingwood should provide a pro rata refund.

Collingwood didn't agree with the investigator's view and asked for an ombudsman's decision. It explained that the likelihood of a claim in the last three or four months of the type of policy Mr B had was much lower than in earlier months. And it also explained that the reason it doesn't provide any refund at all in the last three months of the policy term

for its Learners Motor Insurance policy is that it discounts the premium on every policy it sells. Collingwood's point was that if it had not provided this discount and instead charged Mr B the full premium and then provided him with a refund, he wouldn't have been any better off. It thought the rules under which it operates, the Insurance Conduct of Business Sourcebook (ICOBS) as set out by the Financial Conduct Authority (FCA) allowed it to approach premium refunds in this way.

I issued a provisional decision on 13 November 2023 in which I set out what I'd provisionally decided and why as follows:

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I do not agree with Collingwood's view that ICOBS 7.1.2 has any bearing on what it can charge for cancellation outside the cooling off period. In my opinion, all this is referring to is the right to provide a longer cooling off period if a firm wants to and the fact that this must be on terms at least as favourable to those set out for the cooling off period in the remainder of Chapter 7.

In my opinion, ICOBS is silent on what a firm can charge for cancellation after the cooling off period has ended. But the Principles for Businesses set out in the FCA Handbook mean that Collingwood needs to act with due regards to the interests of its customers. It also needs to make sure that the terms of the policy are not unfair as per The Consumer Rights Act.

Mrs D thinks the refund terms in the policy are unfair because they provide a very limited refund of premium or no refund at all in the last three months of the policy period. But I don't think they are because I'm satisfied with Collingwood's explanation of why there is less than a pro rata refund irrespective of when the policy is cancelled. It is partly because statistics show that policyholders are more likely to make a claim in the earlier months. And because Collingwood discounts the premium for every policyholder. I can't go into more detail than this, as I think the detailed information Collingwood has provided is commercially sensitive. But I think it means that if Mr B had not been charged the discounted premium at the beginning he would have ended up paying roughly the same for the period he was on cover if he had received a pro rata refund of the higher premium he would have paid. I appreciate this is not a full explanation, but I hope it will be clear to Mrs D why I think the refund terms in the policy aren't unfair.

I've also considered Collingwood's other obligations under ICOBS and the Insurance Distribution Directive and what these say about the Insurance Product Information Document (IPID). These and good industry practice make it clear Collingwood needed to produce an IPID for its Learners Motor Insurance policy so that Mr B's broker could provide this to him prior to him buying the policy or soon after doing so. And ICOBS sets out the information that Collingwood needed to include in this document. It also states that in deciding this Collingwood should consider the needs of its typical customer for the policy.

The policy Mr B purchased was specifically for learner drivers and it has to be cancelled when the policyholder passes their test. This means it is much more likely to be cancelled early. In view of this I think Collingwood needed to include in the IPID the fact the policy will have to be cancelled if the policyholder passes their driving test, that the refund provided is not on a pro rata basis and specifically that there is no refund at all in the last three months of the policy period. This information was not included in the IPID. The IPID simply refers to the fact that if the policyholder cancels after the cooling off period has ended a refund will be calculated in accordance with the scale at the end of the cancellation section of the policy document. I don't think this is good enough for me to conclude Collingwood met its obligations in respect of the IPID.

This means I need to consider whether Collingwood's failure to meet its obligations in respect of the IPID has prejudiced Mr B's position. In other words, I need to consider whether he would have acted any differently if the IPID had referred to the fact his policy would have to be cancelled if he passed his test and that he would not receive a pro rata refund of premium at any point. And that he wouldn't receive any refund at all in the last three months.

Bearing in mind the total cost of the basic motor insurance policy to Mr B was £205, which is what I consider to be a competitive premium, as things stand, I still think Mr B would have continued with the policy if he got the IPID shortly after buying it and saw that it would need to be cancelled if he passed his test in the policy period and that he would not receive a pro rata refund at any time. And no refund if he cancelled it in the last three months. After all, Mr B couldn't have known for sure he would pass his test in this period. And, as I've said, the premium was fairly low.

However, if the IPID had included what I've suggested above, Mr B wouldn't have been distressed when he found out he wasn't receiving a pro rata refund. And it wouldn't have been inconvenient for him having to pay something he wasn't expecting to pay. Whereas I think he was distressed because it came as a shock to him that he had something left to pay. And he found this frustrating and inconvenient. In view of this I think he should receive a small amount of compensation for the distress and inconvenience Collingwood's failure to get the information in the IPID right caused him. And I've decided that £50 is appropriate. This means after receiving this amount Mr B will have £26.50 to pay his broker for what is outstanding on the policy if he has not paid this already.

I gave both parties until 27 November 2023 to provide further comments and evidence in response to my provisional decision.

Mrs D responded on behalf of Mr B. She has said the broker is part of the same group as Collingwood and she thinks her complaint about the £40 cancellation fee charged by the broker should be taken into account as part of this complaint. She also feels the way the 'headline' premium is calculated and shown on comparison sites, when obtaining quotes, is misleading.

Collingwood responded to say it welcomes my comments on the IPID and will review it in light of them.

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 noted Mrs D's comments about the cancellation fee and appreciate the broker is part of the same group as Collingwood. But it is still a separate legal entity and separately regulated by the Financial Conduct Authority. So, if Mr B wants to complain about the cancellation fee Mrs D will need to raise a separate complaint about this with the broker. I can also appreciate her comment about the headline premium, but this is also the responsibility of the broker, so I cannot comment on it in a decision about Collingwood.

As Mrs D's comments relate to the responsibilities of the broker and because Collingwood have not disagreed with the outcome set out in my provisional decision, I see no reason to reach a different outcome to the one I suggested in it.

Putting things right

For the reasons set out in my provisional decision, I've decided to uphold Mr B's complaint and make Collingwood pay him £50 in compensation for distress and inconvenience.

My final decision

I uphold Mr B's complaint and order Collingwood Insurance Company Limited to do what I've set out above in the 'Putting things right' section.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 28 December 2023.

Robert Short
Ombudsman