

The complaint

A company, which I'll refer to as T, complains that Watford Insurance Company Europe Limited (WIC) unfairly cancelled its insurance policy.

What happened

The detailed background to this complaint is well known to both parties. So, I'll only provide a brief overview of some of the key events here.

In November 2022, T took out a commercial vehicle policy. In June 2023, T was involved in a motor accident which was reported to WIC. During the claim, it became apparent that at the time of the incident, the vehicle in question did not have a valid MOT.

On 10 August 2023, WIC sent a letter to T where they stated that T should obtain a valid MOT within 10 days of this letter, otherwise T's policy will be cancelled.

Having been made aware of the expired MOT, T obtained a valid MOT immediately on 10 August 2023. Even though this was within the required timeframe, WIC proceeded to cancel T's policy. In their final response letter, WIC said they had exercised their right to cancel T's policy under the cancellation rights section of the policy. They explained that the terms state they can cancel in the event of T breaching the policy terms. WIC said T breached the policy terms by not having a valid MOT certificate and therefore they had acted correctly in cancelling the policy.

Following the complaint referral to the Ombudsman Service, WIC made a goodwill offer on the basis that T did obtain an MOT within the timescale provided by WIC. WIC said that as the policy had expired now, they would refund the premium, on a pro-rata basis, from the date of cancellation to the date the policy expired, as well as paying T £150 compensation. WIC also confirmed that the record of cancellation had been removed from the shared insurance database.

T remained unhappy with WIC's offer. T said when WIC cancelled its policy, it needed to obtain cover elsewhere which proved difficult due to the cancellation. T said because of the circumstances, it had to pay a very high premium to get cover.

Our Investigator recommended that T's complaint should be upheld. She said WIC shouldn't have cancelled T's policy because the MOT test was obtained within the timeframe provided by WIC. In order to put things right, she recommended WIC refund the difference in premium between the cancelled policy and the new policy T obtained. She also said WIC should provide confirmation that the record of cancellation has been removed from all internal and external databases and provide a letter to confirm the policy was cancelled in error. She said WIC should do this in addition to the offer they had already made to give T a pro-rata refund and pay £150 compensation.

WIC didn't agree with our Investigator and so the complaint was passed to me to decide.

I sent an email to WIC (forwarded to T too) explaining that I was minded to reach largely the

same outcome as our Investigator, but I was changing the redress. In summary, I explained that I thought it was unfair for WIC to have cancelled T's policy when the MOT test was obtained within the timeframe provided by WIC.

I noted that WIC had accepted that they shouldn't have cancelled the policy. And that WIC had offered to remove the cancellation from all databases, give a pro-rata refund for the cancelled policy, as well as £150 compensation for the inconvenience caused.

I agreed with our Investigator that in addition to the above offer, WIC needed to do more to put things right. In particular, this needed to address the additional cost T incurred in obtaining a new policy as a result of the cancellation.

I didn't however think it was fair to say that WIC should pay the difference between the cancelled policy and the new policy, because that didn't take into account the fact that there was now a claim on T's policy which would have some impact on the premium going forward. I thought it was reasonable that the claim was taken into consideration when thinking about T's direct financial loss.

Following the cancellation of T's policy, T had obtained a quote from another insurer, who I'll refer to as B. This quote took into account the claim T had made but not the cancellation. The quote was later retracted by B because of the cancelled policy marker against T. Although this wasn't the policy which T took out, I thought it gave a good indication of what it would have cost T when taking into account the impact of the claim on its policy, without the cancellation marker being applied. I therefore considered that the difference in premium between the quote T received from B, and the policy it actually took out, was a reasonable way of thinking about T's direct financial loss as a result of its policy being cancelled.

I compared the level of cover in each policy and noted that generally a higher excess resulted in lower premium. So, I took that into account and thought about things in the round when considering what T's losses were.

Having considered all the circumstances, including T's financial loss, the difference between the policies and the amount of inconvenience caused to T, I thought the consequential loss and compensation for all of this should amount to £1,500. This takes into account the additional premium T incurred and the inconvenience caused to it as a result of the cancelled policy. As well WIC paying this, I also said that they should provide a letter stating that the policy was cancelled in error and that it's been rectified now.

The above redress is in addition to the offer WIC have already made to remove the cancellation from all databases (internal and external) and to provide a pro-rata refund for the cancelled policy.

I also said that if T should approach its new insurer to re-rate the policy based on the error made by WIC, any money it receives by way of a refund is payable to WIC.

Neither T nor WIC responded to what I said in my email.

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.

Having done so, I am upholding this complaint.

I'd like to start by clarifying that in this complaint I'm only considering whether WIC acted

fairly and reasonably when cancelling T's policy. A complaint about the claim itself has been considered previously and so I'm not making a finding on that here.

As referred to above, and in detail in my email dated 11 October 2024, I don't consider it fair or reasonable for WIC to cancel T's policy for not having a valid MOT when T obtained one within the timeframe given. WIC have not provided any alternative reason which might mean it would have been fair or reasonable to cancel T's policy. And I'm satisfied that T suffered a financial loss as a result of WIC cancelling its policy.

WIC accept that they shouldn't have cancelled T's policy. Therefore, when considering this case, I have focused on whether WIC have done enough to put things right.

In my email, I explained what I thought WIC should do to put things right. As neither party have provided any further evidence or comments for me to consider, I see no reason to depart from the outcome I've reached above.

In the circumstances, where an error has been made, I consider it reasonable for WIC to put T back in the position it would have been in had the error not occurred.

WIC offered T a settlement which addressed some of T's complaint. But it did not take into account the financial impact of the cancellation on future premiums. As far as I'm aware, I don't think the impact on the premium extends beyond the first year as WIC said the cancellation marker has now been removed. I do think WIC should provide T with a letter confirming that the cancellation was in error and has been rectified, which should ensure there is no future material detriment.

I have given careful consideration to what T's losses are in this situation and I'm satisfied that the cancellation marker would have had an impact on the cost of T's new policy. T said it was difficult to find a new policy which was suitable for its needs, and I have no reason to doubt this was the case. I think that with a cancellation marker, it would most likely have found its options limited.

As referenced in my summary above, I think the quote T received from B before it was aware of the cancellation, is a good indication of what it would have cost T had the cancellation marker not been applied. I therefore consider it reasonable for WIC to refund the difference between the price quoted by B and the policy T actually took out.

When thinking about this, I compared the policies to check the level of cover and cost for the policy with WIC, B and the policy T ultimately took out. I thought about the whole situation, including the financial loss, the difference between the policies and the amount of inconvenience this matter has caused, as well as WIC's current offer. In the circumstances, I think an appropriate amount to redress the consequential loss and to compensate T is £1,500 in total.

I also consider that, if T should go to its new insurer to re-rate the policy based on the error made by WIC, any money T receives as a refund should be paid to WIC.

Putting things right

If they have not already done so, Watford Insurance Company Europe Limited should take the following steps:

- Remove the cancellation from all internal and external databases.
- Give T a pro-rata refund for the policy it cancelled.

- Provide a letter to confirm the cancellation was in error and has been rectified now.
- Pay T £1,500 compensation to take in account the direct financial loss suffered, as well as the inconvenience caused by this matter.

Should Watford Insurance Company Europe Limited require it, this redress should be contingent on T providing them with an undertaking to pass on any refund it receives following any re-rating of the replacement policy it took out.

My final decision

My final decision is that I uphold this complaint. Watford Insurance Company Europe Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask T to accept or reject my decision before 6 December 2024.

Ankita Patel
Ombudsman