

## **The complaint**

Mr and Mrs K complain that Watford Insurance Company Europe Limited ("Watford") unfairly deducted all outstanding premiums from a settlement payment made under their motor insurance policy.

References to Watford include its agents and contractors.

Mrs K is the policyholder with Mr K as a named driver and owner of the vehicle. I'll refer to Mrs K in my decision for ease.

## **What happened**

In May 2024 Mrs K was involved in a car accident. She contacted Watford to make a claim, which it accepted. It determined the car was a category B total loss. This meant it couldn't be returned to the road. Watford valued the car at £2,164 and confirmed the settlement payment would be provided less the £500 policy excess and any outstanding premiums.

Watford wrote to Mrs K on 29 May 2024 to confirm that she had £1,677.07 in outstanding premiums. When added to the policy excess this was higher than the settlement offer and meant she owed £13.07. Watford told her she should pay this to her insurance broker. Mrs K didn't think this was fair. She'd agreed to pay her insurance premium in monthly instalments. Watford advised that she could add a vehicle to her existing policy and continue to benefit from the cover it provided. But she must do this within 14 days. Mrs K says without the settlement payment it made it very difficult to replace her car.

In its final complaint response Watford says the outstanding premium deduction was made clear to Mrs K. It says it advised her that it may not be financially feasible to make a claim. This is because the settlement amount was less than the sum of the policy excess and outstanding premiums. Watford says Mrs K's car couldn't be returned to her given it was a category B total loss. And it maintains it acted according to its policy terms and conditions.

Mrs K didn't think Watford had treated her fairly and referred the matter to our service. Our investigator upheld her complaint. He says Mrs K had a credit agreement with a separate company not Watford. It had already been paid the full annual premium. He didn't think it was fair that it deducted the outstanding premiums from its settlement payment. Our investigator says Watford should've paid Mrs K the valuation amount less the policy excess. This came to £1,644. He says it should now pay this amount to Mrs K plus 8% simple interest.

Our investigator thought Watford should also pay £150 compensation to Mrs K for the distress and inconvenience it caused her.

Watford didn't agree with our investigator's findings and asked for an ombudsman to consider this complaint.

It has 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.

Having done so I'm upholding Mrs K's complaint. Let me explain.

Mrs K hasn't disputed that her car was a total loss after the accident she was involved in. So, I haven't considered this point. My focus here is whether it was fair for Watford to deduct the outstanding premiums from its settlement payment.

Watford relied on the following policy terms:

### *"Settlement*

*If You are paying Your insurance premium by instalments and We settle a total loss claim under this Section all outstanding premiums may be deducted from the claim's settlement."*

And:

### *"Costs you may be liable for*

*If Your claim is settled on a total loss basis and You do not replace Your Car under this Policy, You will be liable to pay Your full annual premium, for which We reserve the right to deduct from Your claims settlement."*

Also:

### *"Our Cancellation Rights*

*..Valid reasons allowing Us to immediately cancel may include but are not limited to:*

*..In the event that Your Car has been deemed a total loss or has been stolen and not recovered but You have not changed the vehicle insured under Your Policy within 14 days of the claim being settled."*

Watford considers that these terms allowed it to deduct Mrs K's outstanding premium payments from its total loss settlement. And allows it to cancel her policy if she doesn't replace her car within 14 days. I don't agree with this, as I'll explain further. But of importance here is that Watford has an obligation under the Financial Conduct Authority's (FCA) Consumer Duty to deliver good outcomes for its customers. More specifically it's required to provide adequate support to Mrs K throughout the duration of her insurance cover. One of the cross-cutting rules of the Consumer Duty is that Watford must avoid causing foreseeable harm to its customers.

Having considered the evidence, I don't think Watford met its obligations to Mrs K, under the Consumer Duty, in this case.

I say this because the value of Mrs K's car was relatively low compared with the cost of her annual premium. Watford knew that by deducting the outstanding premiums Mrs K would be left with no settlement payment. This made it very difficult for her to replace her car, and to do so within 14 days in order to retain the benefit of her policy and avoid cancellation.

An important point to note is that Mrs K wasn't paying monthly instalments to Watford. She paid these instalments to a separate credit provider. She'd done so as agreed up to the time

of the claim. Watford received its full annual premium from the credit provider at the inception of this policy. So, there were no outstanding premiums owed to Watford at the time of its settlement. I can't see that its policy terms allow it to deduct the amount it did in these circumstances.

What Watford should've done is settle Mrs K's claim by paying its valuation of her car less her policy excess. She could then have used these funds to replace, or to put towards a replacement car. Having read the claim notes Watford repeated its instruction to Mrs K, on several occasions, that her policy would be cancelled unless she added a replacement car within 14 days. But as discussed, it made this very difficult for her by deducting the premium instalments it had already received. I don't think this was fair or that this action is supported by the terms of its policy.

To put this right Watford must return Mrs K back to the position she would've been in had it treated her fairly. To do this I agree with our investigator that Watford should pay Mrs K £1,644 plus 8% simple interest. The interest should be calculated from 29 May 2024, when the claim was concluded, until this payment is made.

I've thought about the impact all of this had on Mrs K. She explains that she has two small children and being without a car caused inconvenience. I understand that she was able to replace her car and add it to her existing policy with Watford on 10 June 2024. However, in order to do this, she explains that she had to use funds allocated for rent payments on her home. She says she was worried about finding the money to pay for a replacement car, and that the lack of a car could impact on her ability to work.

Mrs K's loss occurred on 17 May 2024. She was able to replace her car and add this to her policy on 10 June. I'm glad she was able to retain the benefit of her policy cover and was back driving within around three weeks of the accident. But I accept that she was caused distress and inconvenience during this period due to Watford's unfair handling of her claim. To put this right, I agree with our investigator that it should pay her £150 compensation.

From what Watford says it paid the credit provider the balance of the premiums for Mrs K's policy. It's for it to decide whether it asks for these funds back. If it does then Mrs K should be aware that this will likely add to the monthly premium she is paying to her credit provider currently. The payments she's making now relate to the additional cost of insuring her replacement car. If any change is required to this arrangement, it will be for her credit provider to confirm this with Mrs K.

### **My final decision**

My final decision is that I uphold this complaint. Watford Insurance Company Europe Limited should:

- pay Mrs K £1,644 plus 8% interest\* calculated from 29 May 2024 until this payment is made; and
- pay Mrs K £150 compensation for the distress and inconvenience it caused her.

*\*If Watford considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mrs K how much it's taken off. It should also give her a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.*

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K and Mrs K to accept or reject my decision before 19 February 2025.

Mike Waldron  
**Ombudsman**