

## The complaint

Mr M complains about charges retained by Principal Insurance Limited ("Principal") after his car insurance policy was cancelled.

## What happened

In November 2023 Mr M took out a car insurance policy online which was arranged by Principal. Shortly after taking the policy out, Principal asked Mr M for some documents to validate the policy.

After receiving these documents, Principal wrote to Mr M on 30 November 2023 to inform him an amendment had been made to his policy and an additional premium of £728.81 was now payable for cover to continue. Mr M didn't pay this, so Principal wrote to him on 18 December 2023 to say his policy had been cancelled.

Mr M complained about the cancellation and charges which had been deducted from his premium refund. Principal provided a final response in January 2024 saying the additional premium had been charged because Mr M hadn't disclosed two motoring convictions when he took the policy out, and the extra premium it applied would have been the extra amount he'd have been charged from the start had he disclosed these convictions. And since Mr M didn't pay the additional premium, the policy could not continue and had to be cancelled.

Principal said a refund of £2,171.43 would be issued which could take up to 60 days to process and provided a breakdown of the following charges which were being retained:

Insurer admin fee	£66.08
Discount clawback	£353.22
Commission clawback	£281.77
Broker fee	£62.50

Our investigator said she didn't think the broker fee and discount clawbacks had been unfairly charged, and because the insurer admin fee was applied by the underwriter rather than Principal, it wasn't something we could consider against Principal. But the investigator didn't think the commission clawback had been fairly applied as Principal hadn't drawn Mr M's attention to this charge when the policy was taken out. So she recommended Principal refund Mr M £281.77 plus interest to put this right.

Mr M also said because of a delay in getting the premium refund he incurred interest on a credit card and lost out on petrol money he'd usually receive from his employer. The investigator didn't think Principal should pay Mr M these costs because she wasn't satisfied Mr M had provided enough evidence to show them, and she didn't think the policy had been cancelled unfairly.

Because Mr M didn't agree, the complaint was referred to me to decide. I issued a provisional decision upholding the complaint, and I said:

*"I should firstly say that I won't be looking here at the decision to cancel the policy. The*

cancellation itself was authorised by the policy underwriter and not Principal. Since Principal wasn't responsible for the decision to cancel the policy, if Mr M thinks the policy was cancelled unfairly, he'll need to make a complaint directly to the underwriter about that.

Principal carried out the underwriter's instructions to cancel the policy. But Mr M doesn't appear to have complained about the process it followed in doing so. Instead, it's the charges it retained and costs he says he incurred which I understand he is unhappy about. So, I've considered if those charges were fair and reasonable, and if Principal has acted unfairly to cause Mr M the financial losses he's mentioned.

I can only consider any charges which Principal applied – which I understand were the discount clawback, commission clawback and broker fee. The insurer admin fee of £66.08 is something I understand the underwriter retained rather than Principal. So if Mr M believes that fee was unfairly charged, he'll need to complain directly to the underwriter about it.

Starting with the broker fee, we generally say cancellation fees such as these should be made clear and should be proportionate to the service provided.

Principal has provided a copy of the documents issued to Mr M after he took out the policy. I can see this includes a cover letter which says administration fees may apply in the event of cancellation and says details of these can be found on the terms of business agreement. Looking at the terms of business agreement, I can see this sets out the administration fees including the fee of £62.50 fee if the policy is cancelled after more than 14 days.

Based on this, I think Principal reasonably made clear to Mr M the £62.50 broker fee. I also think the amount of the fee doesn't appear disproportionate to the services Principal provided. So I don't find Principal unfairly charged the £62.50 broker fee.

I don't think the commission clawback was sufficiently brought to Mr M's attention. And I think that was unfair because this was an important term with a significant cost attached. But I don't think it was presented to Mr M in a way which was clear, fair and not misleading. So I don't think it's fair for Mr M to lose out on this amount. To put that right, Principal should refund Mr M the £281.77 commission clawback, and it should add 8% simple interest per year to this refund calculated from the date the policy was cancelled to the date the refund is issued.

The discount clawback of £353.22 reflects that Principal applied a discount to the premium when it sold the policy. Effectively, Principal paid part of the premium on Mr M's behalf by reducing its own commission. When the policy was cancelled, the insurer refunded the full premium to Principal, including the discount it had originally applied. Since Mr M never paid this discounted amount in the first place, he hasn't lost out. So, I don't think it was unfair for Principal to retain the £353.22 discount clawback.

Mr M says he's lost out financially due to the policy being cancelled and how long it took for him to receive his refund. Specifically, he says he paid for the policy up-front using a credit card and has been charged interest on this. And he says ordinarily he's able to claim petrol money from his employer but couldn't do this for a few months after the cancellation as he didn't have the money to take out insurance elsewhere.

I'm not persuaded Principal's actions have led to Mr M incurring the interest charges, or losing out on petrol money.

Mr M says he paid for the policy up-front using a credit card and was charged interest on his credit card for this. But Mr M would always have been charged this interest by using a credit card to pay for his policy – with or without it being cancelled. So I don't think the interest was

*an additional avoidable expense Mr M was caused by Principal acting unfairly. And as such, I don't think Principal ought to pay Mr M this interest.*

*I also don't think it would be reasonable for Principal to reimburse Mr M for petrol money. Mr M explained he couldn't claim this from his employer because he didn't have the money to take out insurance elsewhere. But if Mr M's car was uninsured, that suggests he wasn't able to use it, and therefore wouldn't have needed to buy any petrol during that time. Since there was no petrol purchase, there wouldn't be any petrol money to claim back from his employer. So, it seems like there's no actual financial loss in this situation.*

*Although I don't think Principal should pay Mr M the financial losses he mentioned, I think he did have to wait an unreasonable length of time to be reimbursed the premium after his policy was cancelled.*

*The policy was cancelled on 18 December 2023, but the refund wasn't sent to Mr M until 6 March 2024. I acknowledge the policy terms say a refund can take up to 60 days once the premium has been received from the insurer. But regardless, I think the length of time it took for the refund to be processed was excessive and unfair. And I think Mr M was likely caused some distress by this. So I think some compensation is warranted, and that £100 would be a fair and reasonable amount for the impact caused."*

Mr M didn't reply to the provisional decision. Principal replied saying that while it agreed with the rest of the provisional decision, it didn't think it was fair for interest to be applied to the refund of £281.77 because it had previously tried to reimburse this amount to Mr M, but couldn't do so as the card details it holds for Mr M had expired. And despite trying to contact Mr M several times to make the payment, it had been unable to reach him.

### **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.

As Mr M and Principal haven't given me anything more for me to think about on the merits of the complaint, I see no reason to depart from the position I set out in my provisional decision.

I've considered Principal's comments about the interest I said it should apply to the £281.77 refund. I should explain that the interest is intended to reflect that the deduction of £281.77 for the commission clawback was unfair and caused Mr M to be deprived of those funds for a period. Since I still think it was unfair for that deduction to be made, I still think Mr M should receive interest to recognise he was unfairly placed out of pocket by £281.77 when his policy was cancelled.

I think the policy cancellation date is fair to use as the date the interest should be calculated from, as I think that's the point at which Mr M should have been paid the amount Principal deducted for the commission clawback. As I set out in my provisional decision, I don't think the 60 day timeframe Principal referred to was fair to issue a refund.

I don't dispute that Principal hasn't previously tried to issue this refund. I can see shortly after the investigator provided her opinion, Principal told us Mr M's card details had expired, and it was struggling to contact him to process the payment. But I'm not persuaded it's been shown this prevented Principal from being able to issue the refund. Principal did, for example, have a record of Mr M's address. So, it could have issued a cheque if it was having difficulty issuing the refund to the card Mr M had used for payment of his policy.

So, I still think the date the refund is issued following this decision is reasonable to use as the date the interest should be calculated up to.

However, in recognition of Principal's concerns about interest accruing indefinitely, should Mr M accept this decision, if Principal requires him to provide bank details or confirmation of his address for it to process the refund, Mr M must provide this information within two weeks of Principal's request. If Mr M fails to do so, Principal will only need to calculate interest up to the date two weeks after its request, and no further interest will accrue thereafter.

### **Putting things right**

To put things right, I require Principal to do the following:

- Refund Mr M the commission clawback of £281.77 and apply 8% simple interest per year to this amount, calculated from the date of the policy cancellation to the date the refund is issued. If Principal requires Mr M to provide bank details or address confirmation to process this payment, Mr M must provide this information within two weeks of Principal's request. If Mr M fails to provide the requested information within this time frame, interest will only need to be calculated up to the date two weeks after Principal's request, and no further interest will accrue thereafter.
- Pay Mr M £100 compensation for the distress caused by the delay in issuing his premium refund.

If Principal considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr M how much it's taken off. It should also give Mr M a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

### **My final decision**

My final decision is that I uphold this complaint and I require Principal Insurance Limited resolve the complaint in line with what I've said in the 'Putting things right' section of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 10 January 2025.

Daniel Tinkler  
**Ombudsman**