

The complaint

Mr O complains that U K Insurance Limited (UKI) unfairly cancelled his car insurance policy.

Mr O has been represented by his mother in this complaint. But for ease of reference, I shall refer to anything Mr O's mother said on his behalf, to have been said by Mr O.

What happened

Mr O took out a car insurance policy with UKI in January 2023. In September 2023, Mr O missed a monthly payment on the finance agreement he took out, to pay the annual premium for his policy. UKI wrote to Mr O asking to make this payment or it would cancel the policy. Mr O didn't make this payment, so in November 2023, UKI cancelled the policy.

In December 2023, Mr O was stopped by the police while driving uninsured and his car was impounded. Mr O said he had to take out insurance with another insurer and pay to have his car released.

Mr O complained and in December 2023, UKI issued its complaint response. It said it notified him before it cancelled the policy. Because it said it followed the correct process in cancelling the policy, it didn't uphold the complaint.

Mr O referred his complaint to the Financial Ombudsman Service. He said he wasn't notified of the cancellation via email, and he wasn't aware the policy was cancelled until he was stopped by the police. He said he'd been summoned to a court hearing for driving while uninsured and incurred costs for the storage of his car, its release, travel expenses and the policy he took out with the new insurer.

The Investigator didn't uphold the complaint. They said UKI attempted to contact Mr O through more than one method of contact, so it didn't act unfairly in cancelling his policy.

Mr O didn't agree. The complaint couldn't be resolved, so it's been passed to me to decide.

I issued a provisional decision. In it I explained why I intended to uphold Mr O's complaint. The provisional decision's reasoning forms part of this final decision, so I've copied it below. I invited Mr O and UKI to provide any further comment or evidence they would like me to consider before issuing this final decision.

What I've provisionally 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.

Mr O took out a car insurance policy provided by UKI, where he had to pay an annual premium at the start of the policy. But Mr O wanted to pay in monthly instalments. To do this, Mr O also entered into a fixed sum loan agreement - also provided by UKI. The finance agreement essentially paid the annual premium on Mr O's behalf, and Mr O agreed to repay this finance in monthly instalments, in line with the terms of the finance agreement.

UKI cancelled Mr O's policy because he missed his September 2023 monthly payment. The terms of Mr O's policy allow UKI to cancel the policy with notice, where it is unable to collect payments due under the credit agreement. But it needs to exercise this fairly and reasonably. And, in thinking about this, I've considered this service's approach to cancellation of car insurance policies.

Owing to the implications of having a policy cancelled and the risk of not receiving a cancellation letter, we think it's good industry practice for an insurer to use two means of communication, when it's notifying its customer that their policy has been cancelled, and also when warning them about the possibility of cancellation.

Mr O spoke to UKI in January 2023, when he took out the policy. When asked how he preferred to receive his documents, he refused the option of receiving them by post. And UKI's internal system information shows Mr O's preferred method of contact was not post.

UKI hasn't used the same communication method when contacting Mr O. When notifying him about the missed payment, it's done so by email. So I think Mr O could reasonably have expected to receive further communication by email too. But when giving notice the policy would be cancelled, and when confirming the policy had been cancelled, UKI only did so by post. This is despite post not being Mr O's preferred method of contact and UKI being aware the SMS notice it tried to send failed. UKI hasn't provided evidence to show it gave Mr O notice and confirmation of the cancellation, using his preferred method of contact, or by two means of communication. So I'm not persuaded it did, and I think it acted unfairly.

Mr O said he wasn't aware the policy had been cancelled. He contacted UKI the day after he was stopped by the police, and he paid to take out insurance cover elsewhere. Given the likely implications of driving while uninsured, I'm persuaded Mr O wasn't aware the policy was going to be, or had been, cancelled. And I think this was because UKI only provided the notice and confirmation of cancellation by post, and not by two means of communication.

If Mr O had been aware his policy was going to be cancelled, I think it's more likely than not that he'd have contacted UKI to pay the amount needed to prevent this happening. I say this because this amount was less than what he paid to take out insurance elsewhere. So, I don't think he'd have been stopped by the police for driving uninsured, incurred costs to retrieve his car, or incurred travel costs after his car was taken. And I don't think he'd have been summoned to court for driving uninsured.

Mr O provided evidence of payment he made for insurance cover elsewhere, starting on 30 December 2023. I'm conscious this is less than three weeks before his policy with UKI was due to expire. So, I think he'd always have had to pay for a new policy shortly after that time. I don't think it's fair therefore to direct UKI to refund this cost. But if Mr O can show the total annual premium for this policy, cost more than the policy he took out with UKI in January 2023, I think UKI should refund him this difference. This is because the cancellation may have had an impact on the cost of the policy he took out afterwards.

Mr O did fail to make the payments he'd undertaken to make, even though UKI sent him emails about this. So he's not without some fault here. But he's not received good customer service from UKI, and UKI didn't do enough to make him aware his policy would be, and had been, cancelled. As a result, Mr O has experienced considerable distress, inconvenience and disruption, requiring a lot of effort to sort out. I think UKI's actions have had a serious impact on Mr O. For this reason, I think it should pay him

£400 compensation.

For the above reasons, I find it was unfair and unreasonable for UKI to cancel Mr O's policy, having sent him warning and confirmation of that cancellation by only one means of communication – post.

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.

UKI didn't respond to my provisional decision. Mr O responded with the following:

- Evidence of the costs he incurred to retrieve his car.
- Evidence to show the policy he took out in December 2023, cost £2,734.98 with interest. This was £1,231.11 more than the cost of his policy with UKI in January 2023, which was £1,503.87 with interest.
- Confirmation that a hearing took place in court in September 2024, and he incurred court and legal assistance costs.

The information Mr O provided supports what I said in my provisional decision about the impact UKI's actions had on him. And other than the total extra cost of the policy he took out in December 2023, I don't see any reason to change the outcome I proposed in my provisional decision. I think it's appropriate to allow UKI to review evidence of Mr O's legal costs in determining what's reasonable. So I will leave it to UKI and Mr O to communicate on that matter directly.

My final decision

My final decision is that I uphold this complaint. I require U K Insurance Limited to:

- Remove any record of the cancellation from all internal and external databases.
- Provide Mr O a letter explaining the policy was cancelled in error.
- Refund Mr O £255.34, representing the costs he incurred in releasing his car from the police compound and travelling after his car was taken. It should pay 8% simple interest on this from the date he paid these costs until he gets it back*.
- Refund any reasonable legal costs, including court costs, Mr O has incurred or will incur, in defending any police prosecution. It should pay 8% simple on these costs from the date Mr O pays these costs until he gets it back*.
- Pay Mr O £1,231.11, representing the difference in the annual premium, with interest, between the policy he took out with UKI in January 2023, and the policy he took out in December 2023.
- Pay Mr O £400 in compensation for his distress and inconvenience.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 3 February 2025.

Monjur Alam
Ombudsman

