

The complaint

Mr and Mrs H complain that U K Insurance Limited (UKI) incorrectly cancelled their van insurance policy leaving them out of pocket and suffering distress and inconvenience that they haven't been fairly compensated for.

What happened

The background of this complaint is known in detail to the parties involved so I won't repeat it in full again here, but in summary, due to a system error, UKI incorrectly cancelled Mr and Mrs H's van insurance policy, leaving them uninsured without warning.

To rectify this, UKI sold Mr and Mrs H a new twelve-month policy to cover their vehicle and it issued a pro rata refund for their old policy – retaining any costs for time they had on cover. It also offered them a total of £50 compensation - £5 for call costs and £45 for distress and inconvenience, as well as waiving the cancellation fee it had initially sought to apply.

Mr and Mrs H complained to UKI that the refund didn't fairly compensate them for the losses they incurred in having to take out a new policy and for the upset caused. UKI was satisfied its offer of compensation was fair and that it had issued an accurate refund.

Mr and Mrs H brought a complaint to this service. Our Investigator agreed that UKI's refund was correct and that it had offered fair compensation, so she didn't uphold the complaint. Mr and Mrs H disagreed, so the complaint was passed to me to decide.

I issued a provisional decision on this case. I've included part of what I said in this below.

"In April 2024, Mr and Mrs H took out a van insurance policy with UKI (policy 1) that had an annual premium of £459.86. Mr and Mrs H initially paid this in monthly instalments – making payments in April 2024 and May 2024 before making a lump sum payment of the outstanding balance to settle the policy in full in June 2024. So, had everything happened as it should have, Mr and Mrs H would have been insured under policy 1 until April 2025 with no further payments needed until renewal.

But due to a system error, UKI didn't recognise that policy 1 had been paid in full. In June 2024, UKI incorrectly took another monthly payment from Mr and Mrs H for policy 1 – later refunding this. Then, when Mr and Mrs H cancelled their direct debit for policy 1 (after paying the policy in full), UKI cancelled policy 1 for non-payment in July 2024, leaving Mr and Mrs H unexpectedly without insurance for their vehicle. UKI has accepted this was an error on its part and apologised for this.

To get Mr and Mrs H insured again, UKI sold them a brand-new policy (policy 2) with an annual premium of £441.30. Mr and Mrs H say they felt they had no other choice but to take this out as Mrs H was at work when the policy was cancelled and needed to use the vehicle to get home, causing them significant stress and worry.

UKI also issued a pro rata refund of the total monies paid by Mr and Mrs H for policy 1 retaining any costs for the time they had on cover before the policy was cancelled as they

were insured for that period and could have benefited from the cover.

The calculations I've seen show that UKI took a total of £487.96 from Mr and Mrs H – made up of the two monthly premiums, the lump sum payment and the incorrect monthly premium taken in June 2024 as set out above. From what I've seen, it issued a total refund of £374.76 to Mr and Mrs H for policy 1, meaning it retained £113.20 for the time on cover (98 days).

The refund was broken down into separate payments paid at different points – full details of which have been seen by the parties and discussed in detail with Mrs H, so I haven't repeated it in full again here. But based on the information provided by both parties in this case regarding the refund amounts, I'm satisfied the refund paid, and money retained by UKI is fair and reasonable for the time Mr and Mrs H had on cover before policy 1 was cancelled.

But Mr and Mrs H don't think they've been accurately compensated for UKI's error. They say the refund of £374.76 included the incorrect monthly payment that UKI took from them in June 2024 and so Mr and Mrs H say this can't fairly be counted in the total refund amount. But I disagree. This is a payment that UKI took for policy 1 incorrectly and I've seen evidence that it returned this amount to them. So, I'm satisfied this is part of the total refund of money that Mr and Mrs H received for policy 1. So, these points don't change my conclusion regarding the refund UKI paid Mr and Mrs H for this as set out above.

Mr and Mrs H also argue that by having to purchase policy 2, they essentially had more cover than they needed (twelve months instead of the nine that had been remaining on policy 1). They say the pro rata refund as set out above, didn't cover the cost of policy 2, meaning they had to make up the difference, at very short notice, and through no fault of their own. They don't think this is fair and say UKI has failed to recognise the impact this had on them.

It's not in dispute in this case that UKI made an error in cancelling Mr and Mrs H's policy when it did. UKI therefore had a responsibility to put them back in the position they would have been in but for this error (as far as was reasonably possible). And from what I can see that position, at the very least, should have been with policy 1 reinstated from the point of cancellation and left to run as it was intended until April 2025 as well as Mr and Mrs H being refunded for any monies that had been incorrectly taken from them by UKI.

But instead of reinstating the policy, UKI chose to sell Mr and Mrs H a brand-new twelve-month policy with a new annual premium. Based on the information I've seen so far, I'm unaware of UKI's reasons for this, but regardless, Mr and Mrs H shouldn't have been in a worse off position as a result. So, I've considered the impact this had on them.

Mr and Mrs H had to find the money for a new annual policy, at extremely short notice and under time pressure, which is understandably stressful. Having thought they'd settled their van insurance costs for the year and budgeting for this, they then received the shock that through no fault of their own, this was no longer the case and that they'd have to source funds to cover a new annual premium to regain insurance to use their vehicle. And even with the pro rata refund, it's unlikely this was back in their account and available for them to use at the time policy 2 needed to be paid.

Overall, I don't think this is fair or reasonable and so I can understand Mr and Mrs H's upset regarding this – something they say has been exacerbated by UKI's failure to recognise this. And I think a lot of the impact Mr and Mrs H experienced as a result of UKI's actions most likely could have been avoided by UKI for the reasons explained.

With all that in mind, I don't currently think £45 compensation fairly recognises the distress and inconvenience caused to Mr and Mrs H as a result of UKI's mistake. I'm therefore

mind to direct UKI to increase the compensation for this to £200. UKI can deduct the £45 already paid to Mr and Mrs H from this figure.”

Both parties were given a chance to respond and provide any further information. Mr and Mrs H accepted my provisional decision, but UKI did not. In summary UKI said it cannot reinstate a cancelled insurance policy due to system limitations, but that it would have helped Mr and Mrs H had they told it they were unable to pay for the new policy until they received their refund. UKI says its policies can be cancelled any time, which Mr and Mrs H did at a later date anyway. And finally, while UKI says it appreciates the stress and inconvenience caused to Mr and Mrs H, it feels the action it took and the compensation it already offered was sufficient to put them back in the position they were in prior to the loss.

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, my decision remains unchanged. While UKI has given its reason as to why it didn't reinstate the policy, as already explained, regardless of the reason, Mr and Mrs H shouldn't have been in a worse off position as a result. In my provisional decision I set out my reasons as to why I didn't think what UKI did to put things right went far enough to recognise the distress and inconvenience caused to Mr and Mrs H as a result of its error, and UKI hasn't given me any new information or comment that makes me think differently. Therefore, my final decision remains that I uphold this complaint in part. UKI must now put things right as set out below.

My final decision

For the reasons set out above my final decision is that I uphold this complaint in part and direct U K Insurance Limited to pay Mr and Mrs H a total of £200* compensation for the distress and inconvenience caused in this case. (UKI can deduct the £45 it has already paid from this figure). Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs H to accept or reject my decision before 16 April 2025.

** U K Insurance Limited must pay the compensation within 28 days of the date on which we tell it Mr and Mrs H accept my final decision. If it pays later than this it must also pay interest on the compensation from the deadline date for settlement to the date of payment at 8% a year simple.*

Rosie Osuji
Ombudsman