

The complaint

Mr O complains about advice he was given by First Central Underwriting Limited ('First Central') when he made a claim on his car insurance policy.

What happened

In July 2024, Mr O contacted First Central to make a claim on his car insurance policy after his car was damaged in an accident.

First Central investigated the claim and deemed Mr O's car to be a total loss. So, it settled the claim by paying Mr O a total loss settlement of £2,296, after deducting the policy excess of £475 from the car's market value it determined of £2,771.

Mr O contacted First Central in August 2024, having received the total loss settlement, to request his policy be cancelled. However, he was informed were he to cancel the policy, he would need to pay the remainder of the premium.

Mr O complained about this, saying that when he first made the claim he was told he wouldn't need to pay the rest of the premium if after accepting the total loss settlement he wanted to cancel his policy, and this influenced his decision to proceed with the total loss. He also said he wasn't made aware he could dispute the total loss valuation if he didn't think it was fair and that he was told he would be entitled to a courtesy car for 28 days.

First Central provided a final response to this complaint not upholding it. It had based the total loss settlement valuation on valuations obtained from motor valuations guides, but if Mr O wanted to dispute the valuation he would be entitled to do so. It also said it had listened to the call when Mr O made the claim and that it didn't think he had been misadvised and that although he was told he'd be entitled to cancel the policy, he would need to pay his premium in full. It also said Mr O would be entitled to keep the car if he wanted to, but he would need to pay a retention fee and that he was offered £200 instead of a courtesy car.

Dissatisfied with this response, Mr O brought his complaint to us. Our investigator didn't think First Central had acted unfairly. The investigator listened to the call recordings and didn't think First Central had misinformed Mr O with regards to the premium being payable if the policy was cancelled. In addition to which, the policy terms set out that no refund of premium would be payable if a claim was paid during the policy year. And although First Central had given Mr O the option of retaining his car by paying a retention fee, because there wasn't a response it closed the claim, which the investigator didn't find unfair.

Because Mr O didn't agree, the complaint was referred 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, while I understand Mr O will be disappointed by this, I've decided not to uphold this complaint. I'll explain why.

I should start by saying while I've read and considered everything Mr O and First Central have provided, I won't be commenting on every point made. I'll instead concentrate on what I consider are the key points I need to think about for me to reach a fair and reasonable decision. This isn't meant as a discourtesy to either party, but instead reflects the informal nature of this Service.

I've begun by looking at the policy terms. These say First Central will settle a claim either by repairing the car or paying a cash settlement if the car is a total loss. And if First Central decide the car is a total loss, it will pay the market value which the terms define as the cost to replace the car with one of a similar make, model, age, mileage and condition at the time of loss.

It isn't unusual for an insurer to decide a car is a total loss if the cost of repairing it is likely to be more than the market value of the car. In principle, this isn't unfair as insurer's are entitled to mitigate their costs, and the policy terms gave First Central discretion to settle the claim by paying a total loss settlement.

I'm not going to comment on the total loss settlement itself. First Central has advised Mr O he can raise a dispute about the valuation if he wishes to do that. So, if Mr O is dissatisfied with the total loss valuation amount First Central gave for the car, he'll first need to take that up directly with First Central and make a complaint if he wishes to do so. If he remains dissatisfied after receiving First Central's final response, or if he doesn't receive a final response after eight weeks from the date of making a new complaint, Mr O may refer the matter to us as a separate complaint.

I've reviewed Mr O's policy schedule and can confirm that his insurance policy with First Central was a 12-month contract running from 8 June 2024 to 7 June 2025, with a total premium of £2,229.67. This premium was paid via instalments under a fixed sum loan agreement.

Although Mr O chose to spread the cost through monthly payments, the policy itself was still an annual contract. This means the insurer provided 12 months of cover in exchange for the full annual premium. The instalment plan was simply a method of financing the premium, not a pay-as-you-go arrangement.

As such, when a claim is made and the policy is used – in this case by a total loss settlement being paid following Mr O's claim – the full premium becomes payable. This is because the insurer has fulfilled their contractual obligations by settling the claim.

So, while Mr O may not have wished to continue the policy after his claim was settled, this does not remove his obligation to pay the remaining balance of the premium. This isn't unusual, as annual insurance policies typically work this way. And this was confirmed in the terms of Mr O's policy, which said if the policy is cancelled after a claim is made, the insured will have to pay the balance of the full annual premium.

It's good industry practice that if the cost of a claim is less than the premium for an insurer to pay the difference. But that wasn't the case here. So, I don't find it was unfair for First Central not to have agreed to any premium refund in response to Mr O's enquiry to cancel the policy.

I've next considered if First Central misadvised Mr O. I've listened to the call of 31 July 2024 when Mr O reported the claim. Having done so, I do not think First Central misadvised Mr O

or led him to think he would be entitled to a refund were he to cancel the policy. First Central said the policy would continue after it paid the total loss settlement, and said that Mr O could cancel the policy if he wanted to. But it did not say he would be entitled to any refund of premium were he to do this.

In addition to this, based on the circumstances of the accident, First Central informed Mr O it would consider him at fault for the accident. So, even if Mr O had decided not to claim for the damage to his own car, if Mr O was liable for the accident and First Central paid a third party claim, there still would have been a claim paid on Mr O's policy and he still would have been liable to pay the full annual premium due to this regardless of whether he had claimed for the damage to his own car or cancelled the cover.

I understand that Mr O was given the option to keep his car in exchange for a retention fee. I don't consider this to be unfair. This is because when an insurer pays a total loss settlement, it does so based on the vehicle's pre-accident market value – essentially compensating the insured for the full value of the car as it was before the damage occurred.

In return for this payment, ownership of the vehicle (the 'salvage') transfers to the insurer. The insurer is then entitled to dispose of the salvage – often by selling it – and can offset any proceeds against the cost of the claim. If the insured wishes to keep the salvage instead, it's reasonable for the insurer to deduct its value from the total settlement, which is what the retention fee represents.

Lastly, in response to Mr O's comments about a courtesy car, the policy terms say that a courtesy car would only be provided if the vehicle is being repaired. So, Mr O wasn't entitled to a courtesy car under the terms of the policy.

I can see though that Mr O had taken out optional hire car cover. But I can't consider that here since the provider of this cover was a different business to First Central. So, if Mr O is unhappy with how any aspect of his claim relating to a hire car was handled, he will need to complain directly to the business responsible for providing the hire car cover.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 17 July 2025.

Daniel Tinkler
Ombudsman