

The complaint

Ms B complains about Marshmallow Insurance Limited's decision to cancel her motor insurance policy.

What happened

Ms B had a motor insurance policy with Marshmallow. In March 2024 after she was involved in an incident with a third-party vehicle, she notified Marshmallow. Following this, Marshmallow found Ms B's vehicle didn't have valid road tax and in April 2024, it made the decision to cancel the policy with immediate effect and decline any cover for the incident.

Ms B complained to Marshmallow. She said she was unhappy with its decision to decline cover for the incident, and to cancel the policy, particularly without notice.

Marshmallow issued a complaint response in June 2024. It agreed its decision not to provide cover for the incident was unfair, so it reversed its decision on this, and offered Ms B £200 compensation. But it maintained its decision to cancel the policy without notice.

Ms B referred her complaint to the Financial Ombudsman Service. She said Marshmallow's decision to cancel the policy without notice, caused her to pay higher insurance premiums on the subsequent policies she took out. She said if she'd been given notice, she'd have exercised the right to cancel the policy herself.

The Investigator upheld the complaint. They said it wasn't fair for Marshmallow to have cancelled the policy without notice. So they recommended it remove records of the cancellation and pay Ms B a further £150 compensation.

Marshmallow didn't agree. It said its decision to cancel with immediate effect was in line with the policy terms.

I issued a provisional decision upholding the complaint and in it I said:

"I should first set out that the Financial Ombudsman Service is a dispute resolution service, not the regulator of the insurance industry. So it's not our role to fine and punish a business. Our role is to look at whether a business has acted fairly in the circumstances of the complaint and decide what it needs to do where it hasn't.

Marshmallow accepts it acted unfairly in declining to provide cover for the incident. So I don't need to consider this point further, other than the impact of this on Ms B. And I think this would've caused Ms B avoidable distress and inconvenience.

Ms B accepts Marshmallow did have the right to cancel the policy, but her issue is that it did so without giving her notice of cancellation. For completeness, having reviewed the policy terms, I'm satisfied it was fair for Marshmallow to cancel Ms B's policy. I say this because the terms exclude cover where the insured vehicle doesn't have vehicle tax, and the terms say Marshmallow can cancel the policy due to a failure to comply with the policy exclusions.

I've therefore gone on to consider whether Marshmallow acted fairly in cancelling the policy

with immediate effect. The terms say Marshmallow will give Ms B “up to 7 days’ notice” when it makes the decision to cancel a policy. I agree this doesn’t say Marshmallow won’t cancel the policy without notice, but I need to decide whether or not it was fair for Marshmallow to do so in the circumstances.

Due to the implications of not having insurance, the Financial Ombudsman Service considers it fair and reasonable, and good industry practice, for insurers to provide at least seven days’ notice along with confirmation of cancellation after the notice period has passed.

I’ve also considered the requirements of the Financial Conduct Authority (FCA) Consumer Duty. This includes the Consumer Principle – Principle 12 – as one of the FCA’s Principles for businesses. It says: “A firm must act to deliver good outcomes for retail consumers”. One of the cross-cutting rules setting out how businesses should act to deliver good outcomes for customers is to “Avoid causing foreseeable harm to retail customers”. Looking at the specific circumstances of this case, I think Marshmallow should reasonably have foreseen the harm to Ms B from cancellation without notice, particularly the impact this could have on her obtaining cover elsewhere.

So overall, for the reasons outlined above, I think Marshmallow acted unfairly in cancelling Ms B’s policy, without notice.

Ms B said if she was given notice, she would have cancelled the policy herself, and I’m persuaded this would likely have been the case. And if she had done this, I don’t consider there would have been an external record of her having had this policy cancelled.

Ms B said she had to take out a new policy with a higher premium, because Marshmallow recorded details of the cancellation. I’ve no reason to doubt this. So, I think Ms B had limited options, and had to pay more when she took out subsequent policies, due to Marshmallow’s actions. For this reason, I think Marshmallow should refund the extra premium Ms B paid for any subsequent policies, compared to the full cost of the cancelled policy with Marshmallow, assuming everything else remained the same.

Overall, I think Marshmallow’s initial decision to decline cover for the incident, along with its decision to cancel Ms B’s policy without notice, caused Ms B considerable distress and inconvenience. And I agree with the Investigator that a further £150 compensation, taking the total compensation to £350, is fair and reasonable in the circumstances.”

Marshmallow replied to the provisional decision to say Ms B wouldn’t have been able to cancel the policy herself, even if it had given her notice, and that it would still have processed an ‘insurer cancellation’. It also said if Ms B chose not to claim for the incident of March 2024, it would arrange a pro-rata refund of her premium from the date of cancellation (a refund of the period she was without cover).

Ms B provided evidence to show she declared the cancellation on the policy she took out, with another insurer, in April 2024, and that she paid a higher premium than she did with Marshmallow. She also said Marshmallow should refund her the premium she paid it, in full.

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.

Both Marshmallow and Ms B have now raised points about the refund of the policy premium. Marshmallow said it is willing to discuss a refund with Ms B. In the circumstances, I think it’s appropriate for Marshmallow and Ms B to discuss the refund of her premium separately. And

if there are any problems following this, Ms B can raise a new complaint.

Marshmallow says if it had given Ms B notice, she still wouldn't have been able to cancel the policy herself. I don't agree. I say this because if Marshmallow had given Ms B notice, which would usually be at least seven days, I think she'd still have been entitled to cancel the policy herself within that time. And if she did this, I don't consider it would have been fair for Marshmallow to then process and record this as an insurer cancellation (as opposed to having been cancelled by Ms B).

Ms B has provided evidence of the premium she paid with Marshmallow, and the higher premium she paid on the policy she took out in April 2024, following Marshmallow's cancellation. This also shows she did declare cancellation to the new insurer. In the circumstances, I think it's fair that Marshmallow review this evidence, and refund Ms B the difference between the premium she paid with the new insurer, and the total premium for the cancelled policy with Marshmallow. So this is what I will direct it to do. I'll send Marshmallow the evidence Ms B sent of the premiums.

My final decision

For the reasons outlined above, my final decision is that I uphold this complaint.

Subject to my comments above, I require Marshmallow Insurance Limited to:

- Remove any record of the cancellation from all internal and external databases.
- Review the evidence Ms B sent and refund her the difference between the premium she paid with the new insurer in April 2024, and the total premium for her cancelled policy with Marshmallow.
- Pay Ms B a further £150 compensation in addition to the £200 it previously offered, bringing the total amount to £350.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 28 July 2025.

Monjur Alam
Ombudsman