DRN-5746161

The complaint

Mr C complains that Watford Insurance Company Europe Limited dealt with a third party's claim and cancelled his motor insurance policy. Reference to Watford includes its agents.

What happened

In summary, Mr C had a motor insurance policy underwritten by Watford. Mr C's car was involved in an accident whilst being driven by his son, a minor. Mr C didn't give his son permission to drive his car. Both Mr C's car and the third party's car were damaged.

Mr C went to talk to the third party to resolve the matter and the police were present at the third party's address. He told the police he didn't wish to report his car as stolen and says the police told him they didn't have sufficient evidence to charge his son with taking a vehicle without consent.

Mr C didn't make a claim against his policy for damage to his own car. The third party made a claim against Mr C's policy, which Watford dealt with. Watford subsequently cancelled Mr C's policy and is seeking to recover its outlay from Mr C.

Mr C doesn't think it's fair that Watford dealt with the third party's claim, as he wasn't driving his car and didn't give his son permission to drive his car. He says during a phone call, Watford agreed not to cancel his policy and told him he could keep his no claims bonus if he paid the third party's costs. He disagrees with how Watford dealt with the matter.

One of our Investigators looked at what had happened. She said Watford cancelled Mr C's policy in accordance with the policy terms. But the Investigator thought it would have been fair and reasonable for Watford to have told Mr C it didn't wish to insure him anymore and given him the opportunity to cancel the policy himself. She said that would avoid the negative consequences of Watford cancelling the policy and Mr C having to report that to future insurers. The Investigator recommended Watford remove the cancellation marker from internal and external databases and provide Mr C with a letter confirming this, which he can show to future insurers.

The Investigator said as Watford was obliged to deal with the third party's claim under the Road Traffic Act 1988 (RTA), it was fair for it to retain Mr C's premium and suspend his no claims bonus, unless Watford is able to recover its outlay. She thought the information Watford gave to Mr C in the phone call on 28 October 2024 was misleading and inaccurate. The Investigator recommended Watford pay Mr C compensation of £150 in relation to that.

Watford maintained it acted correctly in cancelling Mr C's policy but removed the record of cancellation from shared insurance databases. It said whilst it doesn't entirely agree with what the Investigator said about its handling of its calls with Mr C, it agreed to pay him compensation of £150.

Mr C didn't agree with the Investigator. He said he wasn't aware Watford would cancel his policy. Mr C said he told Watford he was happy to pay the third party's costs as long as he kept his policy and no claims bonus. He says if he'd known Watford were going to cancel his policy, he would have cancelled it himself.

The Investigator considered what Mr C said but didn't change her view. Mr C asked that an Ombudsman consider his complaint, so it was passed to me to decide.

My provisional decision

On 28 July 2025, I sent both parties my provisional decision in this case. I said I'd come to the same overall conclusions as the Investigator but for different reasons. I said:

'*I've taken into account the law, regulation and good practice. Above all, I've considered what's fair and reasonable. The relevant rules and industry guidance say Watford has a responsibility to handle claims promptly and fairly and must act to deliver good outcomes for retail customers. I uphold Mr C's complaint in part and I'll explain why:*

Watford's decisions to deal with the third party's claim and recover its outlay from Mr C

- *Under the RTA, in certain circumstances, an insurer is obliged to meet a court judgment against a person driving a car but who is not covered under the policy. It's because of this possible obligation that Watford settled the third party's claim. Strictly speaking, an insurer only becomes an RTA insurer if there is a Court judgment. Watford wouldn't have wanted the matter to progress to Court, where costs would increase. Most insurers act proactively to keep matters out of Court in order to avoid costs and delays. So, an insurer will often act as an RTA insurer where that's appropriate and settle the third party's claim before there's a Court order. We don't think that approach is unreasonable.*

- *Liability for the damage to the third party's car doesn't appear to be in dispute. The third party's car was parked. Mr C's car collided with it and caused damage. As Watford is obliged to deal with the third party's claim as an RTA insurer, I don't think it treated Mr C unfairly or unreasonably in dealing with the claim.*

- *An insurer can look to recover its outlay from the policy holder where the policy holder has '…caused or permitted the use of the vehicle which gave rise to the liability' (section 151(8) of the RTA). There's no evidence in this case that Mr C caused or permitted his son to use his car. However, Mr C didn't report his car as stolen or taken without his consent. If he'd done so, Watford would have been able to pursue Mr C's son for its outlay. Watford can also recover its outlay from Mr C as he is insured by the policy.*

- *In addition, Mr C's policy says:*
  'Section 16
  General Conditions Applying to the Whole Policy
  […]'
  3. Right of recovery
  If under the laws of any country in which this insurance applies, We have to make payments which but for those laws would not be covered by this Policy, You must repay the amounts to Us. […]'

- *In the particular circumstances of this case, I don't think Watford acted unfairly or unreasonably in dealing with the third party's claim and in seeking to recover its outlay from Mr C.*

- *In this decision, I haven't considered the amount Watford seeks to recover from Mr C. Based on what I've seen, Mr C doesn't know how much Watford is seeking to recover. If Mr C is subsequently concerned about how much Watford is seeking to recover from him, he'll need to raise the matter with Watford in the first instance. If he's not happy with Watford's response, he can bring that complaint to this service.*

Watford's decision to cancel Mr C's policy

- *Mr C says during a phone call, Watford agreed not to cancel his policy and told him he could keep his no claims bonus if he paid the third party's costs. I've listened to the recording of the relevant phone call. I don't agree Watford said it wouldn't cancel Mr C's policy but I don't think the information Watford gave to Mr C during the phone call was complete or clear.*

- *Even if I concluded Watford had agreed not to cancel Mr C's policy and told him he could keep his no claims bonus, it doesn't follow that Watford is obliged to proceed on that basis. That's because, when mistakes like this happen, we don't think a fair resolution requires us to act as if the incomplete or incorrect information is true. Instead, we look at the effect of the error on the individual.*

- *In this case, Mr C was disappointed Watford went on to cancel his policy. I think his expectations were raised by Watford's handling of the call. In all the circumstances, I think fair compensation for that is £150. In reaching that view, I've taken into account the nature, extent and duration of Mr C's distress and inconvenience caused by Watford's handling of the phone call. Watford has now agreed to pay Mr C compensation of £150. I think that's fair and reasonable in relation to this part of the complaint.*

- *In its final response to Mr C dated 31 January 2025, Watford said it cancelled Mr C's policy as he'd broken the terms and conditions of the policy when an uninsured driver drove his car. It relied on one of the general conditions of the policy which says there's no cover where the car is driven by anyone not described in the certificate of motor insurance. I don't think Watford acted fairly and reasonably in relying on that reason to cancel Mr C's policy. That's because Mr C didn't give his son permission to drive his car. However, that's not the end of the matter.*

- *Mr C's policy says Watford has the right to cancel his policy by giving seven days' notice in writing where there is an exceptional or valid reason for doing so. In this case, I think Watford's exceptional or valid reason is that Mr C didn't report the theft or unauthorised use of his car to the police. One of the general conditions of the policy says as follows:*
  *'**Section 16***
  General Conditions Applying to the Whole Policy
  You must comply with the following Conditions to have the full protection of Your Policy. If You do not comply with them, We may cancel the Policy […]
  […]
  9. Victim of Crime
  The circumstances of any claim which arises as a result of You being a victim of crime must be reported to Police as soon as practicable. You must fully cooperate with all resulting Police enquiries and any resulting prosecution of offenders.'

- *Whilst I think Watford had an exceptional or valid reason for the cancellation of Mr C's policy, I agree with the Investigator that in the particular circumstances here, it would have been fair and reasonable if Watford had told Mr C it no longer wished to insure him and given him the opportunity to cancel the policy himself. Mr C has said he would have taken that course of action if it had been offered to him. Watford has now removed the cancellation from shared insurance databases. It should also remove the cancellation from internal databases and provide Mr C with a letter confirming that it has done so, which he can share with other insurers.*

- *The* ***'3. Right of Recovery'*** *term of the policy I've set out above in part, includes the following:*
  '[…] Any payment We make under this condition will prejudice Your No Claim Bonus and will also mean that there will be no entitlement to a refund of premium if the Policy is cancelled or declared void.'

- *As Watford was obliged to deal with a claim and hasn't recovered its outlay, I think it was entitled to retain Mr C's premium and take this matter into account in terms of his no claims bonus. In its final response letter of 16 January 2025, Watford said if it recovers its outlay in full, it will allow Mr C's no claims bonus and give him a pro-rata refund of premiums. I think that's fair.'*

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.

Neither Mr C nor Watford has provided any fresh information or evidence in response to my provisional decision. I therefore find no basis on which to depart from my earlier conclusions.

For the reasons I've explained, I don't think that Watford acted unfairly or unreasonably in dealing with the third party's claim and in seeking to recover its outlay from Mr C. I remain of the view that Watford should pay Mr C compensation of £150 in relation to his distress and inconvenience arising out of its handling of one of its calls with him.

I remain of the view that Watford had the right to cancel Mr C's policy. But in the particular circumstances here it would have been fair and reasonable if Watford had told Mr C it no longer wished to insure him and given him the opportunity to cancel the policy himself. To put that right, Watford should remove the cancellation from internal databases and provide Mr C with a letter confirming it has done so, which he can share with other insurers

Putting things right

In order to put things right, I direct Watford to:

- remove the cancellation marker from internal databases (Watford has already removed the cancellation marker from shared databases);
- provide Mr C with a letter which he can share with other insurers confirming that it has removed the cancellation marker from internal and shared insurance databases and;
- pay Mr C compensation of £150 in relation to his distress and inconvenience.

My final decision

My final decision is that I uphold this complaint in part. Watford Insurance Company Europe Limited should now take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 8 September 2025.

Louise Povey
Ombudsman