

The complaint

Ms S complains about the way her car insurance company, Marshmallow Insurance Limited (“Marshmallow”) handled a claim and dealt with the payment and refund of her excess.

What happened

Ms S had a car insurance policy for her car.

In November 2024 her car was damaged when a third party reversed into it while it was parked.

She contacted Marshmallow and made a claim.

Marshmallow said it would pass her claim to a partner company as it was likely a non-fault claim. There were problems with this, as the partner company initially rejected dealing with the claim.

Ms S had her car repaired and Marshmallow paid for this. As her claim was non-fault, she’d been told that she didn’t need to pay her policy excess. She went to collect her car from the repairer, but it asked her to pay her excess of £650. Ms S tried to contact Marshmallow through its web chat, but didn’t get a reply. She waited for two hours for a response. Marshmallow doesn’t have a phone number to contact it. Ms S eventually had to pay the excess by credit card.

She contacted Marshmallow and complained. Marshmallow agreed its service hadn’t been good enough. It said it would refund the £650, adding interest at 8% simple. It also said it would pay compensation of £150 for her distress and inconvenience.

Ms S wasn’t happy about the level of compensation she was offered. Marshmallow still hadn’t paid her the amount it said it would – this was later found to be a payment error, but no-one at Marshmallow had followed the error up so Ms S still hadn’t been paid.

Ms S brought her complaint to this service. Our investigator looked into it and thought it would be upheld. She thought Marshmallow should pay interest on the £650 excess refund, at the rate Ms S had paid on her credit card, from the date Ms S paid it to the date Marshmallow refunded it. She also thought the amount of compensation should be increased to a total of £200.

Marshmallow responded and said it realised the payment it was supposed to have made had been rejected. It hadn’t followed this up with Ms S. So, it agreed with the increased compensation in the view, but Ms S didn’t. She asked for the compensation to be increased to about £500 because of the length of time Marshmallow had been taking to deal with the issue. Because she didn’t agree, her complaint has been passed to me to make a decision.

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.

It's important that I start by saying that Marshmallow upheld most of Ms S's complaint. It agreed its service hadn't been very good, as it had told her she wouldn't have to pay her excess, but then didn't respond to her when she firstly queried it, then complained about it.

As Marshmallow has accepted this, I don't need to focus on what went wrong in its claims process, and I can instead look at what Marshmallow needs to do to put things right. This is in line with the informal nature of this service.

Having read the file, I'm upholding Ms S's complaint, but I'm not going to increase the amount of compensation she's asked for. I do appreciate this will come as a disappointment to her, and I'll explain why.

Firstly, because Marshmallow has agreed to refund Ms S's excess, plus interest, it seems to me that it needs to do that. Normally, this service would say interest at 8% simple needs to be added, but in Ms S's case I can see she needed to put the excess payment onto a credit card, incurring interest at 1.597% monthly.

So, I think it's fair that the refund of the excess is subject to interest at that rate applied monthly from the date Ms S paid it, to the date Marshmallow makes this payment.

I can see from the file that Ms S wanted Marshmallow to make a payment in a certain way, and I'd ask that the parties liaise to bring this to a swift conclusion.

I've also thought about Ms S's distress and inconvenience. I can see that she complained swiftly to Marshmallow when she was asked to make the excess payment, and it caused her inconvenience straight away. She became more distressed when she complained about not being refunded the amount, and I can see from Marshmallow's internal notes that there was confusion about how her claim was going to be handled by it, or its partner.

I'll also comment that Ms S wasn't happy about other aspects of Marshmallow's partner providing her with a hire car, rather than a courtesy car, and the way she was passed over to the partner. Those aspects don't fall into the remit of this service and I've not considered them further.

But it seems to me that it's the delayed payment that has caused Ms S considerable stress. Marshmallow agreed to pay her in late January 2025, and sent the payment, but didn't realise it had been declined. So, Ms S was left with an agreement to refund her excess, plus interest and compensation, but then didn't actually receive it.

I can see Marshmallow discovered the payment problem in late July in correspondence to this service.

As I mention above, Marshmallow needs to pay interest on the excess amount it owes Ms S, and this decision takes account of the cost to Ms S of that money.

And, while I think Marshmallow's offer of compensation to Ms S in its final response was likely appropriate in January 2025, because it continued to fail to make payment of the excess and compensation, I think the amount of compensation should be increased to a total of £200 because of the extended time it's taken to make this payment. I appreciate Ms S has asked for a higher figure, but I think £200 is in line with this service's guidelines and I'm not persuaded to increase it further.

My final decision

It's my final decision that I uphold this complaint. I direct Marshmallow Insurance Limited to:

- Refund Ms S's excess, adding interest at the rate applying to Ms S's credit card from the date she made the payment, to the date it makes this payment.
- Pay Ms S a total of £200 compensation for her distress and inconvenience caused by its service. This includes the £150 compensation it's already offered her.

Marshmallow Insurance Limited must pay the amount within 28 days of the date on which we tell it Ms S accepts my final decision. If it pays later than this, it must also pay interest on the amount from the date of my final decision to the date of payment at 8% a year simple.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 9 October 2025.

Richard Sowden
Ombudsman