

The complaint

A community interest company, which I will call G CIC, has complained about the rejection of a claim made under its legal expenses insurance cover with ARAG Legal Expenses Insurance Company Limited.

G CIC is represented in this complaint by one of its directors, who I will refer to as Mr B.

What happened

G CIC entered into an agreement for grant funding. The donor agreed to provide a large sum of money in instalments over a few years to support the charitable aims of G CIC.

However, a dispute arose about the agreement and the donor stopped the payments and sought to recover payment already made. In 2025, G CIC contacted ARAG to make a claim for cover to take legal proceedings against the donor to enforce the agreement for funding.

ARAG turned the claim down, as it said it did not fall within the cover provided. ARAG said the policy covers contract disputes but only about contracts for the provision of goods or services and the agreement for funding did not fall within this cover. It said the grant was to fund the overarching aims of G CIC and was not in return for any goods or services. ARAG said the agreement was more akin to a financial product, and the policy excludes any claim relating to *“a loan, mortgage, pension, guarantee or any other financial product”*.

I understand that G CIC also made a separate claim for cover in relation to a counterclaim brought by the donor, which ARAG declined for the same reasons.

G CIC does not agree and says that its grant funding agreement is a contract and was for the provision of services because the agreement specifies that it can only spend the money on a particular project.

One of our Investigators looked into the matter. The Investigator said that the agreement between G CIC and the donor did not amount to a contract as there was no consideration on G CIC's part and in any case, even if it was a contract, it was not entered into for the purpose of provision of goods or services, or rent or hire between G CIC and the donor, so would not fall with the contract section of cover. The Investigator also considered that it would reasonably be understood at the time the insurance contract was entered into that the cover would only be for disputes about contracts for the immediate exchange of goods or services and not a grant agreement such as here.

The Investigator therefore did not recommend the complaint be upheld, as he was satisfied that ARAG was entitled to reject the claim for the reason it had.

G CIC did not accept the Investigator's assessment. Mr B has made a number of points in response. I have considered everything he has said and have summarised his main points below:

- The agreement with the donor is a legally binding contract and the dispute is about alleged breach of that contract (this is supported by case law and legislation).
- The contract was about the provision of goods, as the donor mandated that it use the funds to purchase goods in order that G CIC deliver services.
- When entering the insurance contract with ARAG, any reasonable charity would have understood that disputes involving legally binding grant agreements fell within the definition of contractual disputes.
- The donor is not a bank, or lender so this is not a financial product.

As the Investigator was unable to resolve the complaint, it has been passed to me.

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.

I am mindful of the position G CIC is in and the impact this decision will have. However, having considered everything carefully, I do not intend to uphold the complaint. I will explain why.

G CIC's policy provides cover for various legal disputes that might arise. The section of cover that both parties agree is relevant here is for contract disputes. This section of cover says it will provide cover for the following:

“Costs and expenses for a contractual dispute arising from an agreement or an alleged agreement which has been entered into by you or on your behalf for the purchase, hire, sale or provision of goods or of services.”

The policy cover is also subject to various terms and conditions, including that it excludes any claims relating to: *“a loan, mortgage, pension, guarantee or any other financial product”*.

I agree that the grant agreement could amount to a contract. The agreement sets out the terms on which the donation is being given and sought to impose obligations on both parties. It also seems to me that it was intended to be legally enforceable and the dispute has arisen as the donor has alleged G CIC has failed to fulfil some of those obligations. I do not think I need to make a finding about this, however, in order to fairly determine this complaint. I say this because, even if it is considered to be a contract, in order to be covered under the contract dispute section of the cover, set out above, the agreement has to have been *“entered into for the purchase, hire, sale or provision of goods or of services”*. (My emphasis.)

G CIC's says that the payment of the grant was so that it could provide goods and/or services to those it is set up to help; and that it could not provide those services without the contract. G CIC therefore says that the agreement was for the provision of goods and/or services.

I have thought about this very carefully. Having done so, I do not agree that this is the reasonable interpretation.

The construction of the term (that the agreement has to be *“for”* the purchase, hire sale or provision of goods and services) is important. In my opinion, the wording that the agreement

has to be “for” the purchase, hire, sale or provision of goods or services means that there has to be an exchange (or intended to be an exchange) between the parties to the contract (i.e. G CIC and the donor) of money in return for goods or services. So, the payment of money or some other consideration by one party to the contract is made in exchange for good and services provided by the other party to the contract. In this case, the donor was not getting anything in return for its payment to G CIC, so I do not think it was an agreement “for” the purchase, hire, sale or provision of goods or services.

In my opinion, this would be the reasonable interpretation and understanding of the policy term by the parties at the time it was entered into.

However, even if this is not correct, and the term should reasonably be interpreted as including situations where funding is provided so that the receiving party uses it to provide goods or services to other third parties (and not the other party to the contract) which is what G CIC suggests, I do not think that is what the agreement between the donor and G CIC states.

I have considered the grant agreement provided to us. It sets out the aims of G CIC and that the money pledged was to further those aims. It also set out various accounting obligations on G CIC including that it should go through a tendering process: “*If any part of the grant is used to buy goods or services...costing more than £10,000*”.

However, I cannot see any reliable evidence that the agreement stipulated that any specific goods or services were to be purchased, hired, sold, provided or obtained by G CIC using the money granted to it. In my opinion, the agreement between the donor and G CIC was not therefore directly for the sale, purchase, hire of goods and or services. It may have related to the provision of services by G CIC but that is not sufficient in my opinion to bring it within the cover.

In case I am wrong about that, I have also considered whether the exclusion set out above fairly applies. The exclusion does not mention grants specifically, but it sets out various examples of financial arrangements that would be excluded, as well as “*any other financial product*”. There is no requirement that any financial arrangement has to be provided by a bank to fall within this exclusion; and as the exclusion also refers to loans or guarantees, which might not be provided by financial institutions, I do not consider that is a requirement. It seems to me that a grant agreement is akin to a guarantee and that, even if the grant agreement was a contract “*entered into for the purchase, hire, sale or provision of goods or of services*” (which I don’t for the reasons set out above) the exclusion would apply.

I do not therefore consider ARAG has acted unfairly or unreasonably in refusing cover.

My final decision

I do not uphold this complaint. Under the rules of the Financial Ombudsman Service, I’m required to ask G to accept or reject my decision before 28 October 2025.

Harriet McCarthy

Ombudsman