

The complaint

Miss L complains about the cancellation of her motor insurance policy by Watford Insurance Company Europe Limited (Watford). Her policy was cancelled after she passed her driving test, and her provisional licence became a full driving licence. Watford said they couldn't insure her with a full licence, so cancelled the policy. Miss L is unhappy at the charges levied when her policy was cancelled and Watford passing the debt to a debt collection agency.

Any reference to Watford in this decision includes their agents.

What happened

Miss L took out a motor insurance policy with Watford in February 2024. The policy was based on Miss L having a provisional driving licence at the time. The policy comprised cover for her vehicle of £3,093.62, an arrangement fee of £393, additional breakdown cover of £70.99 making a total of £3,557.61. Miss L chose to pay for the policy through monthly instalments, which meant an additional direct debit arrangement fee of £25 and a finance agreement comprising a deposit of £358.26 followed by 11 monthly payments of £334.16 (making a total of £4,034.02).

In July 2024, Miss L passed her driving test and so her provisional licence changed to a full UK licence. She contacted Watford to tell them about the change. However, Watford's underwriters decided they couldn't continue to provide cover and exercised their right to cancel the policy.

In cancelling the policy, Watford wrote to Miss L setting out the terms of the cancellation and a breakdown of the amounts due upon cancellation. The net balance due was £645.03 which comprised several elements. These included the cost of the policy (less a refund for unused period of cover), the direct debit fee, broker fee, cancellation fee (£75), the optional breakdown cover and the outstanding amount on the finance agreement under which Miss L was paying for the policy. Watford also wrote to Miss L shortly afterwards requesting she make arrangements for payment of the outstanding balance, otherwise it would be passed to a debt collection agency.

Miss L was unhappy at the amount Watford said was due on cancellation of her policy, contacting Watford to query how it had been calculated. Having not paid the outstanding balance, Watford passed details of the debt to a debt collection agency (ICB) at the beginning of August 2024. While remaining unhappy with the cancellation charges and the balance due, Miss L paid £469.11 of the balance to ICB, concerned at potential damage the debt might have on her credit record. Unhappy at what had happened, Miss L complained to Watford in March 2025, but said she didn't receive a response.

Miss L then complained to this Service, in April 2025, unhappy at Watford's cancellation of her policy and the consequent debt. Despite the cancellation being initiated by Watford, she was unhappy at the charges levied, including the cancellation fee of £75, broker and administration fees and other charges, leading her being referred to ICB. She said FCA guidelines and the approach of this Service, cancellation fees and other charges shouldn't be applied in cases where the insurer initiated the cancellation. She wanted a full refund of the £469.11 she'd already paid to ICB and cancellation of the remaining balance of some

£176. She also wanted removal of any record of the debt from any credit ratings and an apology for how Watford handled her case.

As Watford hadn't considered Miss L's complaint, we asked them to review the complaint and provide a final response.

In their final response, issued in July 2025, Watford partially upheld the complaint. They set out the sequence of events in the case, including further contact with Miss L in May 2025, following her complaint to this Service. This included removal of the £75 cancellation fee, reducing the balance due on cancellation to £570.03. Watford also made a goodwill gesture by reducing the amount for the policy arrangement fee, further reducing the balance due to £348.53. Further discussions reduced the arrangement fee again and removed the direct debit arrangement fee, resulting in a revised balance of £270.73. Allowing for the payments already made by Miss L to ICB, this meant Miss L was entitled to a refund of £198.39, which would be processed through ICB.

While maintaining the original decision to cancel the decision was based on their underwriting criteria, Watford did acknowledge some shortcomings in the way they had handled the cancellation, including wrongly telling Miss L in June 2025 she still owed the original £645.03. Further review of the amount due led Watford to calculate a refund owing of £92.78 to which they offered a further refund of £75.

Our investigator then considered the complaint, issuing a view in which he upheld the complaint. Watford hadn't provided the exact reasons why they chose to cancel the policy, which the investigator didn't consider fair on Miss L. To put things right, Watford should remove the cancellation marker, so it didn't affect Miss L in the future. And Watford hadn't provided a full breakdown of the cancellation balance they applied on cancellation of the policy, which the investigator also thought unfair on Miss L. To put things right, Watford should refund any monies already paid by Miss L and write off any monies still owed. The investigator also thought Watford should pay Miss L £150 compensation for distress and inconvenience suffered by Miss L.

Watford provided further information about the cancellation and calculation of the balance due. They said the change from a provisional licence to a full UK licence would have meant an additional premium that exceeded the maximum premium they were willing to charge.

Having considered the further information provided by Watford, our investigator issued a revised view, which still concluded Watford hadn't acted fairly. However, Watford had acted fairly in their decision to cancel the policy for the reasons they had given. However, this wasn't communicated clearly to Miss L, so she understood why her policy was being cancelled. And having considered the further breakdown of the cancellation balance, the investigator concluded the £645.03 figure was fair, noting Watford had agreed to waive a total of £338.70 (including the cancellation fee). As Miss L had already paid £469.11 then she was due a refund of £167.78. Again, though, the investigator didn't think the balance had been communicated clearly so Miss L was left unsure how the balance had been calculated. The investigator thought Watford should pay the refund and remove any markers applied to her credit file and in respect of the cancellation being recorded, so Miss L didn't need to disclose the cancellation for future insurers. In light of his revised findings and conclusions, the investigator thought £100 compensation for distress and inconvenience would be fair.

Miss L accepted the investigator's revised view, but Watford didn't respond. So, the complaint has been passed to me to consider.

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.

My role here is to decide whether Watford have acted fairly towards Miss L.

The key issues in Miss L's complaint are the cancellation of her policy by Watford following her passing her driving test and, consequently, the amount charged by Watford on cancellation of the policy. She's also unhappy at the debt being passed to ICB. Watford say they cancelled the policy following a decision of their underwriters and the balance due on cancellation was calculated in accordance with the policy terms and conditions and the terms of business, which Miss L accepted when she took out the policy.

I've first considered the cancellation of Miss L's policy, following her passing her driving test and her provisional licence becoming a full licence.

Watford wrote to Miss L at the beginning of July 2024 to say their underwriters had reviewed her policy and chosen to exercise their right to cancel the policy, giving seven days' notice of the cancellation (the letter also sets out the range of charges that will apply on cancellation). But the letter sets out no reason for the cancellation, nor the precise nature of the cancellation and under what policy terms the cancellation was being made.

Having told Watford of her change in licence type, Miss L might have inferred cancellation was a consequence of the change. However, without a clear explanation for the cancellation, Miss L was left uncertain why the policy had been cancelled, or why (if due to the change in her licence type) the licence change meant Watford would no longer provide cover.

Watford have, when responding to our investigator's initial view, confirmed the reason for cancellation was that the change of licence type meant an increase in premium (£1,293.88) that would have taken the policy premium above the maximum figure that Watford would allow for a policy. Setting a maximum level of premium is a commercial and operational decision for Watford, so I can't say that it's unfair or unreasonable. And it would have applied to any customer, whether requesting a quote for insurance or making a mid-term adjustment to an existing policy, so Miss L hasn't been treated any differently to any other customer looking to take out a policy or make a change to an existing policy. So, she hasn't been treated unfairly or unreasonably in that respect.

However, as I've noted, she wasn't provided with the precise reason for the cancellation at the time the decision was made. While Watford might say the reason for cancellation would be commercially sensitive (the existence of a maximum premium level) they haven't sought to deploy this possible reason for not disclosing the precise reason for cancellation to Miss L and I'm not persuaded it would of itself be a reason not to disclose.

So, I've concluded Watford could have given Miss L more detail about the reason for cancellation, which would have helped her understand the situation more clearly. I'll come back to what I think Watford should do to put things right in this respect.

Moving on to the issue of the amount Watford told Miss L she owed on cancellation of the policy, when they informed Miss L of the cancellation, they listed a range of factors and charges that would be included in the calculation of any balance due on cancellation. These included a pro rata deduction of premium for the time she was on cover, the broker arrangement fee, a £75 cancellation fee, the cost of add-on products (breakdown recovery in the case of Miss L), the direct debit arrangement fee and interest charged under her finance agreement (on a pro rata basis).

A subsequent letter, issued on the date the policy was cancelled, set out a cancellation breakdown of the amounts charged for the policy and, separately, amounts from the cancellation. The letter sets out a 'final outcome' of £645.03 outstanding. However, looking at the letter, it's not obvious how the individual amounts balance out to the net outstanding figure of £645.03 nor how some of the individual figures have been calculated. So, I can understand why Miss L queried the outstanding balance.

In responding to our investigator's initial view, Watford provided a different breakdown of the balance due of £645.03 which, from my perspective, is much clearer on the individual elements and the associated figures. So, it gives figures for the time on cover, cancellation fee, arrangement fee, direct debit fee and add-on (a pro rata figure for the breakdown cover). Set against these figures are the deposit paid by Miss L for the policy and the premiums she paid under the instalment plan. I think this would have been a much clearer and transparent breakdown for Miss L.

However, as set out earlier, further discussions between Miss L and Watford after she brought her complaint to this Service meant a series of adjustments and reductions to the initial balance, as well as taking account of the payment(s) made by Miss L to ICB (£469.11). I think these adjustments and reductions (totalling £338.70) are fair and reasonable, meaning a refund of £167.78 is now due to Miss L (rather than a further balance due from her).

To put things right, Watford should refund Miss L the balance of £167.78 due to her.

Given Miss L has actually paid more (to ICB) than the revised balance due on cancellation, then it would be unfair for her to have any adverse markers that may have been applied to her credit record. So, if any such markers have been applied to her credit record, they should be removed.

In respect of the cancellation of the policy, while I think it was fair premium for the policy to be cancelled on the grounds the revised premium would be above the maximum Watford would allow, it would be unfair for record of the cancellation to affect Miss L's insurance history as it was due to Watford's operational policy of a maximum premium, rather than to anything Miss L had done. Watford have said there is no 'tag' against Miss L, so the cancellation does not need to be disclosed to future insurers. But they should ensure no such tags or markers have been applied to external databases or are removed if they have been. I've also considered the impact of what has happened on Miss L, alongside my findings and conclusions. I think she has suffered distress and inconvenience from what's happened, the lack of clarity and transparency about the cancellation and the balance due on cancellation and having to deal with a debt assigned to ICB. Considering the circumstances of the case and the published guidelines from this Service on awards for distress and inconvenience, then I think £100 compensation for distress and inconvenience would be fair and reasonable.

My final decision

For the reasons set out above, my final decision is that I uphold Miss L's complaint. I require Watford Insurance Company Europe Limited to:

- Refund Miss L the net balance of £167.78 due to her from cancellation of her policy and subsequent adjustments and reductions applied by Watford Insurance Company Europe Limited.
- Remove any markers from her credit record that may have been applied in respect of the balance due/.
- Ensure no tags or markers in respect of the policy cancellation have been applied to external databases or are removed if they have been.

- Pay Miss L £100 compensation for distress and inconvenience.

Watford Insurance Company Europe Limited must pay the compensation within 28 days of the date we tell them Miss L accepts my final decision. If they pay later than this they must also pay interest on the compensation 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 Miss L to accept or reject my decision before 8 January 2026.

Paul King
Ombudsman