

The complaint

Miss I complains that Marshmallow Insurance Limited cancelled her motor insurance policy and declined her claim.

What happened

Miss I bought a policy with Marshmallow via a comparison site. Following an incident, she made a claim which Marshmallow initially accepted.

In arranging to repair Miss I's car, Marshmallow provided Miss I a courtesy car. But Miss I said the courtesy car wasn't suitable for her. She said it wasn't big enough and needed to carry sometimes larger items in connection with her work.

Marshmallow then decided to cancel Miss I's policy and not deal with her claim. It said her policy didn't provide cover for the carriage of goods in connection with Miss I's business. It said it considered Miss I's use of her vehicle a breach of the policy, which it said entitled it to cancel her policy and not deal with the claim.

Miss I complained, she didn't think this was fair. She said she told Marshmallow when she took the policy out what her profession was and selected business use. She thought she was covered. And she said the incident she was involved in didn't happen during business use anyway.

Marshmallow didn't change its stance. It said it was clear in the schedule and the certificate of insurance what type of driving was covered by business use and what wasn't.

Miss I brought her complaint to the Financial Ombudsman Service.

One of our Investigators recommended it be upheld. He thought it was unfair to decline Miss I's claim, and to cancel her policy. To put things right he recommended that Marshmallow reconsider Miss I's claim, including paying her what she'd paid for some repairs to allow her car to pass its MOT. He said Marshmallow should remove any record of the cancellation from internal or external databases and provide Miss I a letter confirming this had been done.

Our Investigator also thought Marshmallow needed to refund the additional premium Miss I had paid for the policy she took out after this one was cancelled. He recommended £350 compensation for the trouble and upset the whole matter had caused her, as well as £50 for the lost use of her car.

Miss I said she was happy with our Investigator's recommendation. Marshmallow disagreed and asked for an Ombudsman's decision. It maintained it was entitled to cancel Miss I's policy and not deal with her claim based on her using the vehicle for a purpose not allowed under the policy.

I wrote a provisional decision explaining why I was thinking of upholding the complaint and setting out what I thought Marshmallow needed to do to put things right.

That decision said:

“Marshmallow has taken the action it has, because it says it’s found out that Miss I has been using her vehicle for a use not permitted by the policy.

This isn’t really in question. The schedule and the certificate of insurance say Miss I is able to use the car for social domestic and pleasure, and for commuting (SDPC). It says she also has cover for business class 1 use. Both the schedule and the certificate say:

“In addition to SDPC, Business Class 1 allows the policy holder and spouse (if named on the policy) to drive in connection with their business to and from multiple places of work. This does not cover making deliveries (including food), use for hiring, travelling salespeople or any tradesperson or any professional who carries work related goods or other people in their car during their working hours. Any other named driver (with the exception of spouse) on this policy will be covered for SDPC only.”

Miss I was using the vehicle to carry work related goods. So it’s fair to say she was clearly using the vehicle outside of the use permitted by the policy.

So, with that in mind, I think it is reasonable that Marshmallow no longer wishes to insure Miss I, knowing now that she has been, and intends to continue, using the vehicle for a use not permitted by the policy.

But it doesn’t automatically follow that it needs not deal with her claim. Nor does it mean it’s necessarily fair for Marshmallow to record this cancellation. I’ll explain why below.

While the use of the vehicle is clearly stated in the certificate and the schedule. I’ve not been provided anything to evidence Miss I was told of the use of the vehicle before she took out the policy. The certificate and the schedule were sent only after she purchased it.

From what I’ve been provided, there’s nothing that shows exactly what business use is covered and what isn’t that was available to Miss I before she took the policy out. The two documents Miss I is invited to view before taking the policy out are the policy wording, which doesn’t contain any information on business use and what is and isn’t covered by it, and the IPID, which I’ve not been provided.

So, considering that Miss I put her profession in accurately on the application for the policy, and she selected business use, and this policy was offered to her, I’m satisfied she was under the reasonable impression she was fully covered for the use of the vehicle she needed.

In an ideal world, yes, Miss I should have checked the certificate and the schedule, and if she had, she would have seen the policy didn’t meet her needs. But this doesn’t absolve Marshmallow of its responsibilities to provide clear information about the policy and its limitations. And I’m satisfied that if Marshmallow had provided clear information on what was and wasn’t covered by the business use on this policy, before Miss I purchased it, she’d have more than likely not purchased this policy and gone on to purchase a different policy, which covered her for what she needed.

So, considering that, I think were it not for Marshmallow not giving clear information when the policy was taken out, Miss I would be covered for this claim. Therefore, Marshmallow is responsible for her not being covered, so, it should step in and cover her claim in line with the remaining terms of the policy. This is in addition to paying Miss I the cost of the repairs she’s already carried out to the vehicle, plus interest. Because had it covered her claim initially, she’d have not incurred this loss.

This does however mean the remainder of the premium is technically due to Marshmallow. But Marshmallow can only take what was originally agreed. Any additional interest or charges accrued or incurred between Marshmallow cancelling the policy and it dealing with the claim, Marshmallow should cover.

As stated above, now Marshmallow knows the use of the vehicle, I think it's reasonable that it doesn't want to continue covering Miss I. But considering its role as explained above, I think this cancellation should be treated as if Miss I, not Marshmallow cancelled it. It should therefore remove any record of the cancellation from internal and external databases and provide a letter to Miss I confirming this has been done which she can provide to any future insurer.

Cancelling this policy, also meant Miss I had to purchase another policy earlier than she would have needed to otherwise. In addition, that new policy will have been rated on the fact Miss I had a claim (this claim) which would likely have made it more expensive. There's also the fact the cancellation likely not only influenced the price of the policy, but also the number of insurers who offered cover to Miss I. But I also have to consider Miss I's new policy would need a different class of business use, which also would have likely made it more expensive.

So, there's a period of time where, if Marshmallow takes payment of the premium it says (and is rightly) due, Miss I will effectively be paying for two insurance policies. So Marshmallow needs to take action to put that right. To work out the exact loss here is difficult, because the policy Miss I had with Marshmallow and the policy she took out after has too many different variables as set out above. So, while I acknowledge this isn't a perfect solution, I recommend Marshmallow not pursue her for the outstanding amount. If Marshmallow can show the difference Miss I has paid because of its error is less than this amount, I'll consider that. Equally, if Miss I thinks it's more, I'll consider that too.

In addition, this will have caused Miss I distress and inconvenience. She's said she had to borrow money from friends to pay for the new policy and for repairs to her car to allow her to carry on working. For that, our Investigator thought £400 was fair (£350 for distress and inconvenience plus £50 for loss of use). Considering everything, I'm satisfied this amount is fair.

So to summarise what I require Marshmallow to do. It should:

- *Effectively reinstate the policy and settle Miss I's claim in line with the remaining terms, conditions and limits. After which, it should treat the policy as cancelled by Miss I.*
- *Pay Miss I the £700 she paid for repairs, plus interest from the date she paid this amount, to the date it pays her*. Marshmallow is entitled to request evidence this payment was made before paying it.*
- *Remove any record of cancellation from internal and external databases and provide a letter to Miss I confirming this has been done.*
- *Pay Miss I a total of £400 compensation for the distress and inconvenience caused."*

Miss I didn't respond to that decision. Marshmallow did, accepting it.

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.

Because neither party disagreed with, or provided further arguments or evidence for me to consider, my provisional decision above now becomes my final decision.

Putting things right

Marshmallow needs to:

- Effectively reinstate the policy and settle Miss I's claim in line with the remaining terms, conditions and limits. After which, it should treat the policy as cancelled by Miss I.
- Not pursue Miss I for any outstanding balance in relation to the premium.
- Pay Miss I the £700 she paid for repairs, plus interest from the date she paid this amount, to the date it pays her*. Marshmallow is entitled to request evidence this payment was made before paying it.
- Remove any record of cancellation from internal and external databases and provide a letter to Miss I confirming this has been done.
- Pay Miss I a total of £400 compensation for the distress and inconvenience caused.

*Interest is at a rate of 8% simple per year and paid on the amounts specified and from/to the dates stated. HM Revenue & Customs may require Marshmallow to take off tax from this interest. If asked, it must give Miss I a certificate showing how much tax it's taken off.

My final decision

For the reasons set out above, my final decision is that I uphold this complaint. And require Marshmallow Insurance Limited to take the actions set out in the "Putting things right" section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss I to accept or reject my decision before 4 March 2026.

Joe Thornley
Ombudsman