

## **complaint**

Mr S complains Premium Credit Limited (PCL) failed to set up a direct debit for his car insurance on time. This resulted in increased monthly premiums, Mr S felt he then had to cancel the policy, and he's now being asked to pay a one-off amount for the period he had on cover which he feels PCL should be liable for.

## **background**

Mr S took out a car insurance policy, which he wanted to pay for by monthly instalments. The insurance company used PCL to finance this – they would collect the premiums via direct debit from Mr S.

Mr S agreed to take out this policy in October 2018, but PCL didn't set up a direct debit and no payments were made. PCL realised their mistake in January, and contacted Mr S asking him to pay the full yearly insurance amount, spread over the remaining nine-months that the policy was in force. Because of this, the monthly payment increased. Mr S was unhappy with this, and immediately cancelled the policy. PCL then cancelled their credit agreement with Mr S, confirming he owed PCL no money.

The insurance company tried to recover a portion of the premium from Mr S, reflecting the amount of time he'd been covered. He wasn't happy about this, and he's made separate complaints relating to this to the insurance company and their collection agents.

Mr S also complained to PCL about the way they'd dealt with this matter, and they upheld his complaint. They agreed they'd made an error in not starting the direct debit on time. They paid Mr S £50.00 in compensation as an apology for the inconvenience they'd caused.

However, Mr S was unhappy with this, and brought his complaint to us. He said the insurer was now seeking a one-off payment of over £250 for the period he was covered – and as this was all PCL's fault for not setting up the direct debit properly at the beginning, why should he be liable for this amount now. He wants the insurer to cancel the amount, or PCL to pay it.

Our investigator didn't agree with Mr S, saying it was fair he was being asked to pay for the time he had on cover because he'd had the benefit of the insurance. Also, Mr S has some responsibility to ensure his monthly payments were being met. Our investigator did agree that PCL were at fault for not setting up the direct debit properly, and for not communicating properly with Mr S, but agreed their offer of £50 compensation was fair and reasonable in the circumstances.

Unhappy with this, Mr S asked an Ombudsman to review his complaint.

## **my findings**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Before doing so, I want to make clear that I am considering the actions of PCL only. Mr S has made complaints against his insurance company and their collection agent, but these are being dealt with separately, so I won't be making any comment on them here. PCL were responsible for collecting the premium from Mr S for an insurance policy he'd agreed to take

out – so I'll only look at PCL's actions trying to collect the premium by setting up the direct debit, and how their failure to do this affected Mr S.

Before doing this, I need to comment on the one-off amount the insurer is seeking to recover from Mr S, and which he thinks PCL should be liable for. This amount, just over £250, isn't all related to the particular policy that forms the basis of this complaint. I understand Mr S took out an earlier policy in September 2018, which he then cancelled in October 2018 because the premium increased. There was an amount payable for this 'first' policy - about £75 – which is included in the £250 the insurer is claiming. This had nothing to do with the 'second' policy Mr S took out in October 2018 – the one PCL forgot to set up the direct debit for. So, I can separate this £75 charge from the amount the insurer is seeking, and say PCL is not liable to pay this £75 Mr S is being charged – this 'first' policy was cancelled by Mr S, and the amount due isn't as a result of any failing on PCL's part.

The second policy started in October 2018 and appears to have followed on from the cancelled 'first' policy. I haven't seen anything or heard the sales call where this second policy was agreed – although I've heard the sales call for the 'first' policy, and the 'script' the insurer went through when a new policy is agreed. This offers paying monthly as an option. I think it's more likely than not Mr S went through a similar 'script' when the 'second' policy started, and so think it's likely Mr S was offered the same direct debit option for the 'second' policy. This being so, I think it's more likely than not Mr S was aware he'd taken out a new policy in October 2018, requiring monthly direct debit payments.

So now, I need to consider how PCL dealt with setting up the payment option for that 'second' policy. PCL have already agreed they failed to set the direct debit up on time because of an internal oversight. There is no dispute regarding this. It's clear they failed to set up the direct debit in October 2018, and I agree they were at fault here.

But, Mr S did have insurance cover in the period, so PCL's mistake didn't result in him not being insured - just he wasn't paying for it. But I can see Mr S's monthly payments increased because the premium would be collected over nine months, and that Mr S decided this wasn't something he was prepared to pay. He chose to cancel the policy because of this.

The insurer said Mr S must pay a cancellation amount for the period he had on cover – about £175 (the £250 claimed, less the £75 charged for the 'first' policy). This amount is made up of what is effectively a £25 cancellation fee, and about £150 as a pro-rata amount of the full premium in respect of the days Mr S was covered.

Dealing with the £150 first, I don't think PCL should have to pay this on Mr S's behalf. Mr S was covered by the policy in the relevant period, and as I've said above I think it's likely he knew he was covered. I also think it's likely Mr S knew payments should have been paid each month, so I think Mr S would have known he had insurance he had an obligation to pay for. PCL may not have set the direct debit up properly, but I don't think it follows they become liable for the period of cover that Mr S benefitted from. Whilst I'm not prepared to say here whether Mr S should have to pay this – this is an issue better dealt with in Mr S's complaint about the insurer – I am prepared to say that PCL *shouldn't* have to pay it.

However, I do think PCL should pay Mr S the £25 cancellation fee the insurer is charging. I think it would be appropriate for PCL to cover this cost to Mr S because of the position its actions put him in - he felt he had to make the choice to cancel. I've contacted PCL, and they've agreed to pay this extra amount.

Finally, I want to look at the amount of compensation PCL have paid to Mr S. They have paid £50 to compensate for the inconvenience their actions (or inactions) caused. In deciding whether this amount is fair, I need to look at the effect PCL's error had on Mr S.

Mr S felt he had to cancel his insurance due to the increased monthly premium, and was no doubt unhappy he'd have to make up the payments he thought he'd been making. However, against this, I believe Mr S would've known he'd agreed to take out an insurance policy on monthly terms, and so is more likely than not to have been aware of the need to make monthly payments from that time on. As such, I think £50 provides a fair reflection of the inconvenience experienced by Mr S, and I won't be asking them to increase this amount.

### **my final decision**

For the reasons given, my decision is that I uphold this complaint. I require Premium Credit Ltd to do the following:

- Pay £25 to Mr S, to compensate him for the cancellation fee being charged to him by his insurance company

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 22 November 2019.

Mark Evans  
**ombudsman**