

complaint

Mr Y complains about the refund The Policy Shop Insurance Services Ltd gave him when he cancelled his commercial motor insurance policy. He's also unhappy that it reduced his no claims discount (NCD). He wants a higher amount refunded.

background

The Policy Shop cancelled Mr Y's policy after seven months as its panel of insurers wouldn't cover his new van. The policy had cost him £1,500, but his refund was £231.23. Mr Y also said The Policy Shop had reduced his NCD from nine years to three.

our investigator's view

Our investigator recommended that the complaint should be upheld in part. He thought The Policy Shop hadn't provided Mr Y with enough information when he took out the policy about how his refund would be calculated. So he thought this hadn't given Mr Y an informed choice and it should pay him £125 compensation. But he thought the NCD had been correctly assessed because an incident had been recorded.

The Policy Shop replied that Mr Y had confirmed when he took out his policy that he had read and agreed its terms of business. The renewal documents provided a breakdown of the premium. It had waived its £45 cancellation fee.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Mr Y and to The Policy Shop on 27 April 2017. I summarise my findings:

I agreed with the investigator that The Policy Shop didn't give Mr Y enough information about how his cancellation refund would be calculated when he took out the policy. But I disagreed that The Policy Shop explained to Mr Y that short-term rates would be charged for his time on cover. I also thought it didn't calculate the refund he was due properly, and unfairly reduced his NCD.

Mr Y was charged short-term rates by the insurer for his time on cover. Our approach is that when an insurer charges short-term rates, it needs to provide evidence to justify this. Short-term rates aren't unusual in commercial vehicle policies, but I can't see that it has done this. And so I thought Mr Y should complain directly to the insurer about this if he so wished. If he's unhappy with its response, then he can bring that complaint to us.

We also think that when short-term rates are included in a policy, the broker, The Policy Shop needs to have told the consumer, Mr Y, about them before the sale and it needs to be able to show that he understood this.

The Policy Shop provided the sales calls it had with Mr Y. It asked Mr Y if he had received his policy documents, which were available online, and if he was happy with them. But I didn't hear it refer to the short-term cancellation rates. So I thought it didn't give Mr Y enough information for him to understand that short-term rates would apply to his policy. I thought this caused Mr Y prejudice and I thought The Policy Shop should compensate him for this. I thought £125 would be reasonable.

The Policy Shop deducted from Mr Y's cancellation refund, its £196.84 arrangement fee and £72 for two non-refundable extras. The Policy Shop said that this was set out in its Terms of Business, which was available online via a link from the renewal documents.

But I agreed with the adjudicator that this wasn't enough. I looked at the renewal documents and listened to the sales calls. I didn't see or hear that The Policy Shop told Mr Y that its arrangement fee and the extras were non-refundable so that he could make an informed choice about whether he still wanted to buy the policy. So I didn't think it was fair that it charged for them in this way.

I thought The Policy Shop was entitled to charge a reasonable admin fee and I thought £75 was reasonable. I also thought that the extras should be charged pro-rata for the time Mr Y was on cover, unless The Policy Shop justified charging its full price with evidence. I couldn't see that it had done this, so I thought it should charge Mr Y pro-rata for his time on cover and refund the remainder, with interest as he's been without his money for some time.

Mr Y thought he had nine years NCD. The Policy Shop explained that a claim had been made against Mr Y's policy in 2014. And so his NCD had been stepped back two years from its maximum allowance of four years. It said he now had three years NCD. But I didn't think this was fair, and I'll now explain why.

A report of an incident doesn't step back NCD. NCD is only stepped back when a claim is made and the insurer doesn't get all its costs paid. Sometimes the insurer will keep a claim open after a reported incident, and reduce the NCD, whilst it waits to see if a claim is going to be made. But I think it's unreasonable for it to do this for a great length of time unless it seems likely from the circumstances that a claim will be made.

In Mr Y's case, all I could see from The Policy Shop's file was that he reported that a package fell off his van. It recorded this as an incident, reduced Mr Y's NCD, and presumably waited to see if any claim would be made. But three years has now passed and its records also say that no claim was made.

So I thought it was unfair for it to not restore Mr Y's NCD. I thought it should have done this before the end of that policy year. This would mean that his renewal premium shouldn't have been affected.

So I thought The Policy Shop should make good any losses this caused Mr Y by having to pay any increased premiums since that date, with interest. This will be difficult for Mr Y to demonstrate, so I thought that it should calculate this for him.

Subject to any further representations by Mr Y or The Policy Shop, my provisional decision was that I intended to uphold this complaint.

my findings

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

The Policy Shop hasn't responded to my provisional decision, despite repeated requests.

Mr Y's representative replied that Mr Y didn't want to cancel the policy. But The Policy Shop explained that its panel of insurers wouldn't offer cover for his new van and so I think it had no option but to cancel it.

Mr Y's representative said he'd only had the policy for five months, not seven as I thought. Mr Y renewed his policy on 7 May 2016. From what I can see, he was told the policy was to be cancelled on 6 December 2016. So I think that Mr Y had use of the policy for seven months.

Mr Y's representative also thought the redress I proposed was insufficient. But I think it restores Mr Y's position taking into account The Policy Shop's errors. I think it's for him to raise the short-term rates issue directly with the insurer if he wants to request any further refunds.

So I can't see any new evidence that changes my provisional view.

my final decision

My final decision is that I uphold this complaint. I require The Policy Shop Insurance Services Ltd to do the following:

1. Pay Mr Y £125 compensation for not making him sufficiently aware that short-term cancellation rates would apply to the policy.
2. Recalculate Mr Y's cancellation refund charging only £75 for its administration fee and pro-rata for his time on cover for his two extras and refund him the remainder. It should add interest to this refund at 8% simple per annum from the date of cancellation to the date of settlement.
3. Ask the insurer to correct Mr Y's NCD record to show that no claim was made following the incident and to restore his NCD.
4. Calculate Mr Y's losses from having to pay increased premiums due to the stepped back NCD. It should refund him this amount, adding interest at 8% simple per annum from the end of the policy year when the incident was reported to the date of settlement.
5. HM Revenue & Customs requires The Policy Shop to withhold income tax from that interest. It must give Mr Y a certificate showing how much it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Y to accept or reject my decision before 19 June 2017.

Phillip Berechree
ombudsman