

complaint

Mr M complained that J & M Insurance Services (UK) Limited didn't give him the correct premium refund when he cancelled his motor insurance policy.

background

Mr M took out a policy with J & M and paid the annual premium of £900. J&M based that premium on Mr M having five years' no claims discount (NCD). When he didn't show them proof of this, they increased the premium by about an extra £1,300.

Mr M didn't agree to pay the extra amount. So, after warning him, J & M cancelled his policy and offered him a refund less their flat charge of £50 and their cancellation short period charge of 35% of the annual premium.

Mr M didn't think the refund was enough, but J & M didn't agree, so he brought his complaint to us. Mr M also wanted compensation for the higher cost and inconvenience of having to arrange new insurance at short notice. The investigator didn't recommend that his complaint should be upheld. She thought that J&M had given Mr M fair notice of their cancellation charges and he wasn't due any more of a refund.

Mr M disagreed and so his case was passed to me to decide. I issued a provisional decision on 21 December 2017 saying that I intended to uphold the complaint. I mainly agreed with the investigator's view. But I thought that J & M's short period cancellation charge was unreasonable.

my findings

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

J & M charged Mr M a cancellation charge of £50 and a short period cancellation charge too. I see that Mr M's policy makes these charges clear. According to their short period cancellation charge scale, 35% will be deducted from the premium if a policy is cancelled within two months. J & M also told Mr M about this short period charge on the phone and that his premium was likely to increase if he couldn't prove his five years' NCD. The increase of about £1,300 made his new correct premium about £2,200.

I thought that J & M had made these things clear to Mr M. So I didn't think that it was unreasonable of them to increase his premium when he didn't prove he had five years' NCD. And as they gave him a reasonable period of time to pay the extra amount of premium, I didn't think it was unfair of them to cancel his policy when they did.

I didn't think the flat rate £50 cancellation fee was unreasonable. However I thought differently about the 35% cancellation charge. We generally think that on cancellation, insurers should charge consumers only for the time they insured them, unless there are good reasons otherwise. In Mr M's case that would be for only about 2 months. However I thought this should be calculated with reference to the new increased premium and not the £900 Mr M originally paid.

J & M said that providing customers with pro-rata premium refunds would deplete their income to the extent that they would be unable to pay claims even after allowance was made for administrative charges. But they couldn't give us any evidence in support of that. And so I didn't think that their short term cancellation charge of 35% was fair or reasonable in this case given the short amount of time they insured Mr M. I thought that he should only have to pay for the time they insured him on a pro rata basis.

So I thought that J & M should recalculate the cancellation amount on a pro rata basis for the actual period they insured him and refund him the extra amount due, plus interest.

Since my provisional decision, neither Mr M nor J & M have made any other comment. So I see no reason to change my decision.

my final decision

For the reasons I've given above and in my provisional decision, it's my final decision that I uphold this complaint. I require J & M Insurance Services (UK) Limited to do the following:

- Recalculate the cost of Mr M's insurance for the actual period they insured him, and deduct that from the £900 he paid them
- Refund him that amount, less anything they have already refunded him
- Pay him interest on the new correct refund amount at 8% simple per year from the date they paid him the original refund until the date they pay him the new correct refund amount.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 12 March 2018.

Rosslyn Scott
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