

complaint

Miss C complains that Haven Insurance Company charged her a 35% cancellation fee when she cancelled her motor insurance policy after two months.

background

The adjudicator investigated the complaint. She concluded that the short term rate Haven had charged couldn't be justified. She recommended that Haven pay Miss C the difference between the short term rate and the pro rata cost of insuring Miss C for the period between the inception of the policy and cancellation.

Haven disagreed with this finding. It said that it was market practice to apply short term rates to the cancellation fee and that this reflected the need for its setting up costs to be frontloaded under its cancellation policy. It said the cancellation charges were clearly set out in the key facts and other policy documents.

my findings

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

The premium for the policy including tax was £1,250.16. Haven added a further administrative charge of £78.75, so the cost to Miss C was £1,322.88. In fact she paid a total of £1,484.14 after credit charges were taken into account. Haven refunded 65% of the premium (including the admin charge) less an administrative fee of £25, in all it paid £834.87 to the broker.. The broker then deducted its cancellation fee of £200. The broker appears to have worked – incorrectly - on the basis that the cancellation fee was 40% of the premium and not the 35% set out in the policy schedule. Miss C received a final refund of £617.43.

I don't accept that it is industry practice to charge a cancellation fee based on short term rates. Most insurers have a standard cancellation charge, normally about £50, which is based on the administrative cost involved in addition to a pro rata payment for the cover actually provided. When considering whether it is fair or reasonable to charge a short term rate we look to see whether this was highlighted to the consumer at the point of sale. This is precisely because we consider it's unusual to use short term rates to calculate the cancellation fee. Secondly we consider whether the insurer has produced any actuarial evidence which provides a proper basis for charging short term rates. This may include, as the adjudicator has explained, evidence that there is an increased risk of the policyholder making a claim during the early months of the policy.

In this case the sale of the policy was dealt with by a broker. I accept that it would have been the broker's responsibility to draw Miss C's attention to the unusually high cancellation charges. I note that in addition to the 35% retained by Haven, the broker also charged a cancellation fee of £200. We wouldn't expect both the insurer and the broker to charge a cancellation fee. Miss C may wish to consider bringing a separate complaint against the broker in relation to this and any failure to draw her attention to the cancellation charges before she committed herself to buying the policy.

But whatever the broker did or didn't do, Haven remains responsible for its decision to impose a cancellation fee using short term rates. It hasn't produced any evidence to show that its use of short term rates was either fair or appropriate to the situation nor that the

charges properly reflected either the risk or the administrative costs associated with the policy. Its argument that the cost of setting up the policy should be taken into account is met by the administration fee of £78.75 that it charged Miss C. In addition Miss C appears to have paid the full amount for the credit she was given. I find that the use of a short term rate in this situation created a significant imbalance in the rights of Haven and Miss C which should now be corrected in accordance with the adjudicator's recommendations.

my final decision

My decision is that I uphold the complaint. I require Haven Insurance Company to refund to Miss C the difference between the 35% cancellation fee and the pro rata cost of her time on risk along with simple interest of 8% a year from the date of payment to the broker until the date of settlement. Any tax properly payable may be deducted from the interest.

Under the rules of the Financial Ombudsman Service, I am required to ask Miss C to accept or reject my decision before 25 March 2015.

Melanie McDonald
ombudsman