

The complaint

Mr H has complained about Motors Insurance Company Limited's (MICL) decision to turn down his claim under his Alloy Wheel Repair insurance policy. Reference to Motors Insurance Company Limited includes its agents.

What happened

Mr H took out an Alloy Wheel Repair policy with MICL which started on 1 April 2022 for a period of three years. He successfully claimed under it in May 2022 for damage to one of the alloy wheels on his car. He had his wheels refurbished (modified) at some point after this, which included them being painted black. He then made a further claim for damage to the wheels. But MICL turned this claim down, relying on a clause in the policy which says the policy will expire if the Alloy Wheel(s) are modified.

Mr H complained, but MICL wouldn't alter its position. Mr H asked us to consider his complaint. One of our investigators did this. He said Mr H's complaint should be upheld and that MICL should refund the full policy premium, less what it had paid out for Mr H's claim in May 2022. This was on the basis MICL was no longer covering a risk after Mr H made his first claim, which the investigator felt made it unfair for MICL to retain the premium.

Initially MICL said it completely disagreed with the investigator's view. But subsequently it offered to provide a pro rata refund of premium from the point Mr H had the wheels on his car modified, less what it had paid out on his claim and a £20 cancellation fee.

The investigator put MICL's offer to Mr H. But he wasn't willing to accept it. He said he wanted the full premium refunded, less the amount MICL paid out on his claim, as he felt it would be unfair for him to only get a pro rata refund of premium and pay a cancellation fee when he was being forced to cancel the policy due to an unfair term. He suggested MICL should either accept the modification to his wheels and honour the policy going forward or provide a full refund less what it had paid on the claim.

The investigator put Mr H's proposals to MICL and said it could agree to what he'd suggested in his view or accept Mr H's proposal to continue the policy. He explained that if MICL didn't agree to do either of these things he would put the case forward for an ombudsman's decision.

MICL said it wanted the complaint put forward for an ombudsman's decision.

I issued a provisional decision on 28 February 2024 in which I set out what I'd provisionally decided and why as follows:

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

While I appreciate Mr H's view on the matter, I do not think the term that states his policy will expire if the alloy wheels on his car are modified is an unfair term. I say this because I can see why MICL wouldn't want to insure wheels that had been modified. This would be

because the modification could mean that if the wheels were damaged they could cost more to repair them or that damage to them is more likely.

The fact Mr H modified the wheels on his car meant that at the point he did it his policy expired, i.e. he had no cover under it. And from this point onwards MICL were not exposed to any risk, because there was no chance it would have to pay out on a further claim. However, MICL did cover a risk up to the point Mr H modified the wheels, because it could have paid out on a claim for damage to them at any point up to this. And it did of course actually pay out on a claim in May 2022.

However, the policy terms are silent on what happens with regards to the premium if the policy expires. And there is no mention in them of an administration fee being payable if the policy expires. So, I need to decide what is fair and reasonable taking into account the fact that all the policy terms say is that the policy will expire if the alloy wheels it is covering are modified.

Having considered this, I agree with MICL's view that it should be able to retain the premium for the period up to when Mr H modified the wheels on his car. And this means it should only have to provide a pro rata refund for the period after this. But I do not think it is fair for it to deduct what it paid out on Mr H's claim from the pro rata refund it provides. I say this because the premium for the period up to when the policy expires covered the risk of a claim in this period. And the policy terms do not say that there will be no refund due if the policy expires and a claim has been paid. It does say if the policyholder cancels the policy there will be no refund if a claim has been made. But Mr H did not cancel his policy; it expired due to the fact he modified the wheels on his car. And the policy terms do not say that an administration fee is payable if the policy expires, so I don't consider it would be fair for MICL to deduct one.

It therefore follows that I consider the fair and reasonable outcome to Mr H's complaint is for MICL to provide him with a pro rata refund of the full policy premium from the date he modified the wheels on his car. This is subject to him providing evidence to show he did modify them and what date this happened. I think MICL should have done this more or less as soon as it was told Mr H had modified the wheels on his car, but no later than when it turned down his claim. It didn't and this meant Mr H was deprived of funds he should have had. So, I think it is fair and reasonable for MICL to pay interest on the refund due to Mr H from the date it turned down his claim.

I gave both parties until 13 March 2024 to provide further comments and evidence in response to my provisional decision.

Mr H did not provide any further comments, but he did provide a copy of the invoice for the modification of the alloy wheels on his car, which is dated 24 October 2022.

MICL has not provided any further comments or evidence.

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.

As MICL has not provided any further comments or evidence and Mr H hasn't provided any further comments, I see no reason to reach a different conclusion on the fair and reasonable outcome to Mr H's complaint to the one I set out in my provisional decision.

However, I do now know when Mr H modified the alloy wheels on his car, i.e. 24 October

2022. And this is the date that MICL should use to work out the pro rata refund of premium from.

Putting things right

For the reasons set out in my provisional decision I've decided to uphold Mr H's complaint and Motors Insurance Company Limited must do the following:

- Provide Mr H with a pro rata refund of the full policy premium from 24 October 2022 to the date his policy ends without deducting an administration or cancellation fee.
- It must also pay interest on this amount at 8% per annum simple from the date it turned down Mr H's claim to the date of payment.

My final decision

I uphold Mr H's complaint and order Motors Insurance Company Limited to do what I've set out above in the 'Putting things right' section.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 11 April 2024.

Robert Short
Ombudsman