

The complaint

Mr A complains that Liverpool Victoria Insurance Company Limited (LV) unfairly cancelled his motor insurance policy for reasons of fraud.

What happened

Mr A says he received a message from LV the week prior to his policy renewal in 2023. It told him that his policy was being cancelled because he'd used an unauthorised agent. He disputed this with LV, but it maintained it was cancelling his policy and his name was to be added to a fraud database. Mr A says finding motor insurance is now much more expensive. He didn't think this was fair, so he complained.

In its final complaint response LV reiterated that Mr A had used an unauthorised agent when he took out his policy. This was the reason why it had cancelled his policy. It confirmed that his details would be added to a fraud prevention database. LV says that no error had been made and it wouldn't alter its decision.

Mr A thought he been treated unfairly and referred the matter to our service. Our investigator upheld his complaint. He says it hadn't shown that Mr A was aware the broker he'd used wasn't authorised by the Financial Conduct Authority (FCA). Or that the broker had acted in a fraudulent manner. Our investigator says LV should've allowed Mr A the option to cancel his policy. Because it didn't, and his name was added to a fraud database, this has had a significant impact on him.

Our investigator says LV should remove any reference to the cancellation and fraud from any internal or external data bases. He says it should also provide a letter explaining the cancellation was completed in error. This is so Mr A can provide this to his current or future insurers. He says it should also pay him £225 for the distress and inconvenience it caused.

Mr A agreed with our investigator's view. LV didn't and asked for an ombudsman to consider the matter.

It has been passed to me to decide.

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.

Having done so I'm upholding Mr A's complaint. Let me explain.

LV refers to Mr A's policy terms in support of its decision to cancel his policy. The terms say:

"If you or anyone representing you give us misleading or incorrect information to any of the questions asked when applying for or amending this insurance;

- we may cancel or avoid your policy (treat it as if it never existed), including all other policies you have with us and apply a cancellation charge.

Where fraud is identified, we'll also:

- pass details to fraud prevention and law enforcement agencies whose members may access and use this information. Other insurers may also see this information."

In its letter dated 17 November 2023 LV told Mr A it was cancelling his policy as it had been incepted through an unauthorised agent. It has since added that an incorrect purchase date was provided for Mr A's car. It says a change of vehicle was enacted shortly after the policy incepted. And that it was confirmed the car was 'garaged overnight' which later changed. LV says the details that were provided were made to fit with its underwriting requirements. It believes this demonstrates fraud.

It's been shown that the individual Mr A used isn't authorised to sell motor insurance policies. Unauthorised brokers are often referred to as 'ghost brokers'. Ghost broking is categorised in a few different ways. The approach relevant to these circumstances is where the broker obtains a policy on behalf of a customer, which is done by providing false details to achieve a lower premium. The ghost broker essentially presents a low-risk driver to the insurer. Details on the policy can then be amended later.

This type of activity is damaging to the insurance industry. Most insurers will have identifiers to indicate where a ghost broker is involved. We understand that this is necessary. But we expect insurers to carry out an investigation where such indicators are identified to ensure it's treating its customer fairly. Given the impact on the policyholder if an insurer cancels a policy and/or adds them to a fraud data base – its important for the insurer to provide compelling evidence to support its decision.

I can see that LV asked Mr A some questions before it cancelled his policy. He gave the name of the broker and explained he'd known him for around four or five years. He says he met him in person to arrange his motor insurance. Mr A explained that this broker also arranges his home and investment insurance. LV asked Mr A why he used a broker. Mr A told LV that he didn't have to respond to that question.

I can understand why LV had concerns about the way in which Mr A's policy was set up and the broker he used. There's no question that Mr A's broker wasn't authorised by the FCA to sell motor insurance. However, he is authorised by the FCA in other areas. Mr A maintains that he was unaware of this, and that he'd used this individual for his other insurance needs. Based on this information I don't think LV has shown that Mr A was reasonably aware that he'd used an unauthorised broker when taking out his policy.

In its submissions to our service LV refers to the wrong year being given as the purchase date for the car. But it hasn't shown that this would impact on its decision to provide cover. As discussed the reason given for cancelling the policy was that Mr A had used an unauthorised agent. In its complaint response it says the policy was set up fraudulently. I don't think LV has shown that Mr A knew the broker was unauthorised. And I don't think it's shown that Mr A acted fraudulently.

In these circumstances I think it's reasonable that LV wanted to cancel Mr A's policy as it was set up through an unauthorised broker. But it should've allowed Mr A to cancel the policy given the negative impact the cancellation would have. Because it didn't allow Mr A this opportunity it should amend its records to remove any reference to the cancellation. It should also remove any record regarding Mr A and fraud. LV should also write a letter to Mr A explaining that it cancelled his policy in error, so that he can show this to his current

and any future insurers. Given the distress Mr A has been caused as a result of being told he'd committed fraud unfairly, and for the inconvenience he's been put to, I agree with our investigator that LV should pay him £225.

My final decision

My final decision is that I uphold this complaint. Liverpool Victoria Insurance Company Limited should:

- remove any record of its cancellation and fraud relating to Mr A;
- write a letter to Mr A explaining that it cancelled his policy in error; and
- pay £225 compensation for the distress and inconvenience it caused him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 26 July 2024.

Mike Waldron
Ombudsman