

complaint

Mr B complains that Advantage Insurance Company Limited should refund about half of the premium for his motorcycle insurance, after he cancelled it about half way through the policy year.

background

A broker acted as intermediary between Mr B and Advantage. He paid about £250 for a year's cover but cancelled his policy after six months and a few days. Advantage gave him no refund and charged him a fee of £35 which it later refunded.

The adjudicator recommended that the complaint should be upheld in part. He concluded that it was not fair and reasonable for Advantage to charge a short-term rate. He said insurers are entitled to charge for time on risk (based on the annual premium charged). And he said that the fee of £35 was not unreasonable. The adjudicator recommended that Advantage should:

1. charge Mr B on a pro-rata basis (based on the original premium not any short term rates) for his time on cover, and
2. refund Mr B the difference between the pro rata premium and the premium he was actually charged and has paid, less the cancellation fee of £35, together, with interest on this sum at the rate of 8% a year simple from the date the premium was paid to the date of settlement.

Advantage disagrees with the adjudicator's opinion. It says many bikers take their machines off the road in the winter months. And the majority of insurers charge them short-term rates.

my findings

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

Where the evidence is incomplete, inconclusive or contradictory (as some of it is here), I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

I have seen policy terms including the following:

“3, Cancelling this policy

You have the right to cancel this policy within 14 days of taking it out or renewing it (or within 14 days of receiving the policy documents or renewal schedule. If later), without giving a reason. Unless you have made a total loss claim under the policy, you will receive a refund of premium paid, subject to your insurer's minimum premium for any period of cover provided. In these circumstances, the effective date of cancellation will be the date that you serve notice to us of your wish to cancel. If you serve notice of cancellation prior to commencement of cover, you will be entitled to a full refund of the premium you have paid.

Where cover is cancelled within the first 14 days from the start date of your policy, your insurer may apply a minimum premium for that period of cover. This will not

exceed £15 plus Insurance Premium Tax (at the current rate) and will be payable in addition to our cancellation fee.

We or your insurer may also cancel this policy by sending you 7 days' notice, in writing, to your last known address.

A refund of premium for the remaining period of your policy will be allowed as long as no claim has arisen in the current period, subject to your insurer's minimum premium. You may also cancel the policy at any time after the initial 14-day period detailed above by contacting us and then returning the Certificate of Motor Insurance to us. In this event a refund of premium, subject to your insurer's minimum premium, will be calculated with effect from the date you contacted us. If any claims have been submitted during the current annual period of insurance, no refund will be due and if you are paying the annual premium by instalments, then the outstanding loan will become payable in full.

Information regarding how we or your insurer will calculate any refund of premium due is shown in the cancellation schedule overleaf.

Cancellation Schedule

...

Over 6
months*
NIL"

So in effect the policy booklet says no premium will be refunded for policies that have been in force over six months.

Mr B's policy ran from 21 December 2013 to 29 June 2014 that is 190 days. Advantage gave him no refund for the period from 30 June to 20 December that is 175 days.

So the effect of the cancellation schedule in Mr B's case would be to almost double the daily rate of insurance. I do not consider this fair and reasonable. I will order Advantage to refund Mr B as follows:

$$£249.28 / 365 \text{ days} = £0.68 \text{ per day} \times 175 \text{ days} = £119.$$

I will also order Advantage to add interest to that amount at our usual rate.

In other circumstances, I would consider it fair to allow the deduction of a reasonable cancellation fee. But Advantage waived and refunded the £35 fee paid by Mr B. And it made him fight for a further refund. I consider that it unfairly put him to some trouble and caused him some annoyance. I consider that Advantage has prolonged this and made it worse by its response to the adjudicator's opinion. So I conclude that it is fair and reasonable to allow Mr B to keep the refund of £35 and to order Advantage to pay him a further £40 compensation for distress and inconvenience.

my final decision

For the reasons I have explained, my final decision is that I uphold this complaint. I order Advantage Insurance Company Limited to pay Mr B:

1. £119;
2. simple interest on that amount at the annual rate of 8% from 29 June 2014 to the date it refunds him. If it considers it has to deduct tax from the interest element of my

award, it shall send Mr B a tax deduction certificate when it pays him. He can then use that certificate to try to reclaim the tax, if he is entitled to do so.

3. £40 for distress and inconvenience.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr B to accept or reject my decision before 20 April 2015.

Christopher Gilbert
ombudsman