

## **The complaint**

Mr B is complaining that Granite Finance Ltd changed the way it collected payments on a finance agreement he took out to pay for his car insurance policy.

## **What happened**

In March 2022 Mr B took out an annual car insurance policy through a broker. He wanted to pay the annual premium in monthly instalments. To enable him to do so, Mr B entered into a finance agreement provided by Granite. In doing so, Granite paid the annual premium on Mr B's behalf and Mr B agreed to repay this in line with the terms of the finance agreement.

On 7 June 2022 Mr B's monthly direct debit was returned unpaid by the bank. So Granite wrote to Mr B on 16 June 2022 to say he needed to make the payment by 30 June 2022 or it would instruct the broker to cancel the insurance policy. Mr B called Granite on 29 June 2022 to ask it for a further extension to pay the missed direct debit. Granite didn't agree to this and said Mr B needed to call back the next day. Mr B called the next day and asked for a further one day extension as he says he was getting paid then, but Granite again didn't agree to this and said it would instruct the broker to cancel the policy if he didn't pay the missed payment by the end of the day.

Mr B called Granite on 1 July 2022 to make the missed payment, but he was told the policy had been cancelled. Mr B paid the missed payment and arranged to take out a new insurance policy. However, Granite wasn't willing to continue with a direct debit arrangement and said payments now needed to be made through a continuous payment authority (CPA) – where payments were taken from a card.

Mr B's payments for July and August 2022 didn't go through. Mr B called in July 2022 and made the July payment and no administration fees were charged. However, when Mr B called in August 2022 to pay the missed August payment, he was told an administration fee of £25 had been charged and he needed to pay that. Mr B then complained that the terms of the contract had been changed by insisting payments had to be made by CPA as opposed to by direct debit.

Granite didn't uphold Mr B's complaint, so he referred it to this Service.

Our investigator didn't uphold this complaint. She thought Granite had been premature in instructing the policy to be cancelled in June 2022. But she didn't think Mr B had lost out as a result and she was satisfied that it was made clear to Mr B that the payments would be taken by CPA going forward.

Mr B maintained he wasn't told about the change in terms, so asked for the complaint to be reviewed by an ombudsman.

## **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.

I've decided to not uphold this complaint.

There are two issues here for me to consider:

1. Was it fair for Granite to request the policy be cancelled; and
2. Was it made clear to Mr B that future payments will be paid through CPA?

I shall consider each point separately.

### *Cancellation*

I don't think Granite acted fairly in requiring the insurance policy be cancelled. The terms of Mr B's insurance policy would have set out that Granite could require that the broker cancels the policy if he missed a payment on his finance agreement. But, generally speaking, I don't think it's fair for an insurance policy to be cancelled as soon as a payment is missed.

A finance provider can ask for an insurance policy to be cancelled as a means to recover outstanding arrears on the finance agreement – as Granite did in this case. But cancellation can have severe implications on a consumer, as it invariably results in charges being incurred due to the cancellation. It can also lead to further difficulties in getting replacement insurance. This is likely to then put the consumer in a worse position than they were in before the cancellation. And this doesn't align with regulatory requirements to treat customers fairly. Further to this industry regulations sets out a number of options I would have expected Granite to have considered to assist Mr B clear his arrears. Ultimately, I think cancellation should be a last resort and only considered after other avenues had been explored.

In this case all Mr B asked for was a day's extension to make the payment as he set out he was expecting to be paid the next day. I don't think refusing this extension was in keeping with Granite's obligations under *Principle 6* (Customers' interests) as set out in *PRIN 2.1.1 R* (Principles for Businesses) – to treat its customers fairly. Further to this I've also considered *CONC 7.3.2A* which sets out that businesses should allow a period of forbearance to enable consumers to get back on track. I've not seen anything to show that Granite considered any forbearance at all. As I said, all Mr B was asking for was a day's extension and I think Granite should have reasonably allowed this.

However, while I think Granite shouldn't have cancelled the insurance policy, I haven't seen anything to show Mr B's lost out. I haven't seen anything to show that Mr B was charged a cancellation fee when the policy was cancelled. It also seems that the annual premium remained the same. So, in essence, the policy continued as it had before – with the exception in the change in payment method that I'll consider later.

So, given I don't think Mr B has lost out from the policy's cancellation, I don't think Granite needs to compensate him for this.

### *Change in payment method*

Mr B is unhappy that he says he wasn't told Granite was changing the way it was taking the payment. But I don't agree. I've listened to the telephone call Mr B had at the time and he was clearly told that future payments would be taken through CPA. Mr B acknowledged this and provided his card details to enable this to be done.

But, even if that wasn't the case, I don't think Mr B has lost out. Mr B didn't find himself in the

position he was in because of the change in payment method, but because the payments didn't go through as they were declined by his bank. The situation would likely have been the same whether the payment was taken by direct debit or by using the debit card for the account. Payment was still being taken from the same account on the same payment date. It appears the payments didn't go through because of insufficient funds in the account, as opposed to anything Granite did. So, it follows, that I don't think Granite was responsible for this.

I note Mr B is unhappy Granite charged a £25 administration charge for missed payments on the finance agreement. But, Granite charged £25 for missed payments regarding the insurance policy that was cancelled as well. There haven't been any change in the terms of the contracts – both the insurance policy and the finance agreement. Ultimately, I don't think anything has materially changed after the policy was cancelled.

### *Summary*

I've read and considered everything Mr B has said. As I said, I think Granite were premature in requiring the insurance policy be cancelled. But I'm not persuaded that Mr B has lost out because of anything Granite may have done wrong.

### **My final decision**

For the reasons I've set out above, it's my final decision that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 11 August 2023.

Guy Mitchell

**Ombudsman**