

The complaint

Ms M complains that Legal and General Assurance Society Limited ('L&G') acted unfairly when receiving premiums for her protection policy by suggesting she had let her policy fall into arrears – which was not the case. She says this caused her worry and upset.

What happened

Ms M applied for her term assurance policy through a financial adviser in late 2009. It offered her life and critical illness cover with an initial sum assured of £33,187 with a 25-year decreasing term matching the length of her mortgage. The policy went on risk in February 2010. Premiums of £14.64 were due on the 5th of each month, with a 30-day grace period.

When Ms M applied for the policy, she completed a direct debit instruction ('DDI') as this was a mandatory requirement to set up monthly premium payments with L&G. However, some years later, Ms M switched her payment method to a standing order with her bank.

The premium due on 5 April 2021 was sent by Ms M on 4 May 2021. L&G missed this payment. This meant that the next standing order payment received on 1 June 2021 (which should have been allocated to pay May 2021 premium) was applied to the premium due in April 2021. As a consequence, L&G's automated system noted May and June 2021 premiums were outstanding and this generated an arrears letter to Ms M dated 3 June 2021. By that time, the letter said she'd need to pay three premiums of £43.92.

Ms M then undertook a series of calls with L&G to establish why she had been sent the letter, given she had not missed any payments. She says these calls gave her conflicting information and worried her. L&G has not provided evidence of the calls in their entirety.

On 18 June 2021, L&G issued a final response to the complaint. It reiterated what had gone on; its records showed the payment due in the first week of May to cover April's premium was not paid. However, it did then receive a payment at the beginning of June. Ordinarily this would have covered May's premium but as April's premium was outstanding, the payment it received in June paid for April's premium.

It went on to explain that if Ms M believed its records were incorrect and she did make a payment to it at the beginning of May, she ought to send it a copy of her bank statement to show the payment. It could then credit her account with the outstanding premium.

That same day, Ms M contacted this service about her concerns, and was assisted in communicating with L&G by one of our investigators. She reiterated that she had paid all premiums on time and provided the relevant bank statement to show as such.

On 28 June 2021, L&G wrote to Ms M again. It confirmed it had located her premium payment and credited her account accordingly. It said the reason it was previously unable to trace the payment was because it wasn't paid into the correct account and not added to Ms M's policy. It also said that because Ms M was choosing to pay premiums by standing order, it could not control missing payments. L&G said if she wanted to keep the cover, she needed to make payments to a different account. Ms M went on to cancel the policy in July 2021.

The investigator felt that Ms M's complaint ought to succeed. He said L&G should pay Ms M compensation to reflect the upset she had suffered in relation to the arrears letter and the communications L&G had her afterwards. He noted that whilst it may well be the case that L&G's systems preferred direct debits over standing orders, Ms M had successfully made payments for some years by standing order before any issue was put to her.

The investigator felt that the arrears letter had caused Ms M particular concern, as a person that suffered from anxiety and other serious health conditions including a type of cancer. Taking this into account, he felt L&G ought to pay her £75 for the upset it had caused.

L&G sent in a number of further submissions in response to our investigator. It said, in summary:

- it does not offer its customers the option of paying premiums by standing order;
- however, it can't stop a customer sending payments that way, as Ms M did;
- Ms M arranged the standing order with her bank and she controlled the payment date, the amount and which bank account the payment was sent to;
- it can only cancel a policy if the customer cancels it, or if the policy lapses due to unpaid premiums;
- so, it had to continue to accept Ms M's standing order premium payments;
- it did tell her in 2019 the risks of continuing by standing order rather than direct debit;
- it did not fail to tell Ms M of change of bank account details when paying her premiums, because it does not accept standing order payments so it would not have contacted Ms M on that basis;
- it did not accuse Ms M of missing premium payments;
- instead it explained that because it could not control the standing order payment process, it had no way of confirming if her payment had been received or not;
- so, it asked her to send confirmation from her bank that the standing order was paid in May 2021 and the account it was paid into so as to verify the payment;
- the payment Ms M paid in May was to cover the April premium, because she paid them according to her own chosen date, not the date the premium was due;
- it denies giving Ms M conflicting information;
- in the 10 June 2021 call it told Ms M that the letter relating to the missed May 2021 payment was automatically generated;
- but it could see a payment had been received so it needed to clarify with its internal payments team as to why the letter was issued;
- the following day one of its call handlers spoke with Ms M to explain a further call would take place on the Monday (14 June);
- in that call, the call handler explained that the premiums were being paid after they were due, that L&G has no control over a standing order and that paying by direct debit would prevent this situation from recurring;
- the payment for May still couldn't be found, so Ms M was asked for evidence;
- the call handler offered as a gesture of goodwill to waive the outstanding May premium and make a payment for the trouble and upset caused, however Ms M refused this offer;
- Ms M refused to set up a direct debit and said the Financial Ombudsman Service told her she did not have to;
- however, L&G has seen no such suggestion that this service told Ms M as such;
- the subsequent final response letter it sent did not contradict anything that was said previously;
- instead it merely chose to recognise Ms M's position that she did not wish to make her premium payments by direct debit;

- Ms M did make contact in 2019 about arrears letters at that time and was invited to complete a DDI;
- L&G does not dispute that Ms M is vulnerable;
- it apologised for the issues in tracing the standing order payment and the upset that caused;
- but it does not agree that its communications were poor, confusing, or that they caused Ms M distress;
- it does not accept paying Ms M £75 because it offered her compensation on 14 June 2021 and she refused it.

Mrs M said she felt L&G had paid no thought to her whatsoever, and failed to treat her with any professionalism. She said it was also frustrating that L&G was contesting the investigator's view, when it was clear only one call handler had given her accurate information; the other two insisted she had not paid her premiums when she had done so.

Our investigator asked L&G for further information relating to calls Ms M had with two of the three L&G call handlers, but it did not reply or provide this evidence despite repeated efforts from the investigator.

Ms M confirmed that she wanted an ombudsman to review the complaint.

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.

Before I go any further, I can see things have been difficult for Ms M in respect of her health and I send my best wishes to her.

Ms M has also said that she has since cancelled her policy – which may have provided valuable cover for critical illness. That isn't a ground of complaint and does not form part of my decision; but if Ms M wishes, she may want to seek financial advice or to speak with L&G if she believes she could have had a claim to pursue up to the date the policy ended.

Having looked at everything before me, I also believe this complaint should be upheld, and that compensation ought to be paid to Ms M.

I understand receipt of premium payments by standing orders causes a number of administrative burdens for L&G. It therefore will only set up policies with premium payments taken by direct debit. I accept that, and do not find it unfair that it has this requirement from the outset. In this case, a BACS payment is collected on an agreed date by L&G – which in turn means no delays and it avoids the prospect of payments being missed or lost.

Contrastingly, when a payment is made by standing order, it is placed in an L&G bank account. It then reviews the account for payments and manually applies the payment to the policy. This process is notably more time consuming for L&G and depending on when the standing order is received can mean the payment is applied to the policy outside of the 30-day grace period, which then triggers the automated missed premium process on the policy.

In Ms M's case, it seems two issues compounded the problem – 1) firstly the payment was missed and possibly delayed by the public holiday and 2) by this time it had required Ms M to make payments to a different L&G bank account. The explanation above accounts for the first issue. The second issue was only made clear to Ms M in the letter L&G sent after it had located the payment as it then told her there was a different account. At the time of making the April payment on 3 May 2021, Ms M did not know the account had changed.

L&G has sent some internal records showing Ms M knew direct debit was the preferred method of payment – as she had spoken with it in 2019 in respect of missed payments, though at that time no payment was lost and a letter was simply issued asking her to complete a DDI. Ms M says she believes she did not need to do so and spoke with this service – though I've seen no clear evidence of that.

Either way, I don't believe the matters of 2019 are central to this complaint. Ms M does not dispute that she knew L&G preferred direct debits – but says she had made 92 continued payments by standing order, so she understood this was something L&G was prepared to allow. If it did not want to accept payment in that method, it could have told her about that.

Instead, it did not inform her that the bank account had changed (which would not affect its direct debit customers) until such time as the payment could not be located. I believe it could have done more to make Ms M aware of the need to change her payment details because this was known to it before the premium could not be located in May 2021.

I believe the evidence shows L&G recognised that its actions have had an impact on Ms M. And it accepts she is a vulnerable consumer. It confirmed as such in its second letter to Ms M of 28 June 2021 where it said, *"I am sorry that we were not previously able to trace the payment and for the trouble and upset this caused you"*. It follows that I believe a compensation payment for this upset is warranted here. Notably, L&G also identified a payment was due to Ms M as its call handler offered her compensation.

I do not accept the argument that because Ms M refused compensation previously, that it can no longer be due. My role is to reach a fair and reasonable outcome, taking into account the effect of L&G's actions/inactions (where it could've done something differently) on Ms M.

By 18 June 2021, L&G was aware that the 3 May 2021 payment was received – an internal file note of that date from its banking team confirms that it did receive the payment but it had somehow been missed. Despite this, the final response letter also dated 18 June 2021 invited Ms M to evidence that she had paid the standing order. This caused her additional upset at a difficult time and I believe that should be accounted for in any compensation.

Putting things right

L&G permitted Ms M paying her policy premiums by standing order; and while human or computer error may have led to a delay in locating them, that is not the fault of Ms M as she has no say in L&G's internal processes. Nor did it notify her that she had been paying her premium payments to an incorrect account. Finally, L&G's banking team had told the call handlers that the payment was found on the same date L&G wrote to Ms M stating she needed to evidence the missing payment in order for her to have it credited to her account. This put her at a further inconvenience, which was then only rectified on 28 June 2021.

I have considered the combined impact of these errors on Ms M when making my award for compensation. I believe that a payment of £250 is appropriate for the upset Ms M has explained, noting that the issue took effort to resolve at a time when she was very unwell.

My final decision

I uphold this complaint. Legal and General Assurance Society Limited must pay Ms M £250 for the upset and distress she has been caused in relation to the processing of her premium payments.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or

reject my decision before 18 August 2022.

Jo Storey
Ombudsman