

## **The complaint**

Ms A complains that Scottish Friendly Assurance Society Limited (“SFAS”) unfairly continued to charge premiums for her income protection policy during its final year when she wouldn’t have been able to claim due to a 52-week deferral period.

## **What happened**

Ms A held an income protection policy with SFAS which she originally took out in October 1999. She complained that she was charged premiums between July 2020 and July 2021 despite the fact that she couldn’t benefit from the policy. This was because the policy was due to expire on 14 July 2021 but had a deferral period of 52 weeks where she wouldn’t have been able to claim for any new illness. Ms A said that in effect, this meant she wouldn’t be able to claim if she fell ill from 14 July 2020 onwards, but would still have to continue paying premiums.

Ms A says that SFAS failed to make the significance of the deferral period clear and that she wouldn’t be able to claim for any new illnesses occurring within the final year of the policy.

SFAS said there was no restriction on the length of time following an illness that a belated claim could be made. They said that if she had fallen ill prior to 13 July 2020, then she could have received a pro-rata payment following the 52-week deferral period during the final year of the policy up until its expiry. As a result, they didn’t think it was unfair to charge a premium during the final year.

Our investigator upheld the complaint. He didn’t consider SFAS had made it clear that Ms A wouldn’t be able to claim for a new illness during the final 52 weeks of her policy and thought they should refund the premiums she paid during this final year. SFAS disagreed, so the matter has been escalated to me to determine.

## **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 agree with the conclusions reached by the investigator for the following reasons:

- I appreciate that, in theory, a policyholder wouldn’t be precluded from claiming during the final year of the policy for any illness that had occurred during the penultimate year, as the insurer has explained. But this scenario only benefits those who *do* in fact suffer an illness where the 52-week deferral period ends either before or part way through the policy’s final year. Ms A did not suffer any such illness. And if she had fallen ill during the policy’s final year, the terms and conditions state that she wouldn’t have been able to claim for it.
- I accept that SFAS have made it clear that there was a 52-week deferral period to claim for any illness or disability. But it effectively means that Ms A couldn’t claim for

any illness if it was newly diagnosed during the final year of the policy, as it would overlap with the deferral period. This results in there being a clear limitation on being able to claim for any new illness during the last year of the policy, which the insurer ought to have made clear to Ms A. But I've not seen anything to suggest that this limitation was clearly brought to her attention. So, I'm not persuaded SFAS gave her enough information in order to make an informed decision about whether to continue with the cover during its final year.

- Ms A has said that if SFAS had made this clear, she would have cancelled the policy on 14 July 2020 rather than waiting for its expiry a year later. And given she was not suffering from any ill health at that time, I think she most likely *would* have cancelled it in July 2020 rather than choosing to pay for another year of cover where any newly diagnosed illness would fall within the 52-week deferral period. I therefore consider it would be fair and reasonable for SFAS to refund Ms A the premiums she paid for the final year of the policy up until its expiry.

### **My final decision**

For the reasons given above, I uphold this complaint and direct Scottish Friendly Assurance Society Limited to refund Ms A the premiums she paid between July 2020 and 2021 during the final year of her income protection policy. SFAS should also pay 8% simple interest per annum on this amount from the date Ms A made the payments to the date of settlement.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms A to accept or reject my decision before 28 September 2022.

Jack Ferris  
**Ombudsman**