

The complaint

Mrs K complains that The Royal London Mutual Insurance Society Limited ("Royal London") unfairly suspended her income protection benefit when she received a settlement payment from her former employer.

Mrs K is represented in this complaint, but for ease I'll refer to all submissions as being made by her directly.

What happened

When Mrs K became incapacitated by persistent postural perceptual dizziness (PPPD) in 2019, she made a successful income protection claim with Royal London. Mrs K's employment was terminated in 2020 however, and as part of that process she received a settlement payment from her employer. That payment was made up of pay in lieu of notice (PILON), accrued holiday, and compensation.

Royal London explained that Mrs K's PILON and holiday pay constituted earnings that would need to be deducted from her income protection benefit. So, it ceased paying benefit for a period of 20 weeks (having calculated how many benefit weeks those earnings had equated to), and resumed doing so once that timeframe had elapsed.

Mrs K complained and said the deduction hadn't been made in line with the terms and conditions of her policy. She also said the amount of time it'd taken Royal London to deal with matters had exacerbated her condition and caused her additional stress and anxiety.

Royal London said it had acted in line with the policy terms but acknowledged it had been responsible for some delays and could have handled some matters better. Royal London apologised for that and offered Mrs K £300 compensation, but Mrs K remained unhappy and brought her complaint to this service instead.

Our investigator thought Royal London had suspended Mrs K's benefit in line with the policy terms. They also thought the £300 it had already offered was a fair reflection of the impact that would have been caused by its customer service failings. Mrs K disagreed though, and said our investigator hadn't demonstrated that each of her points had been adequately investigated. So as no agreement was reached the complaint was 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.

Before I set out any findings I think it important to highlight that like the investigator before me, I will not address each and every point that has been made. My decision will only focus on those matters I consider central to the outcome of this complaint and for the following reasons I will not be directing Royal London to take any additional action:

- The terms and conditions of Mrs K's policy explain that benefit will be reduced in the

event of any other earnings from employment. Specifically, they read:

“If the person covered has other income

We’ll reduce the amount we pay so that the total income **you** receive equals the lower of £1500 or the cover amount **you’ve** chosen if:

- ***you*** have any other plan with **us** or with any other company which provides what **we** judge to be similar covers, or
- the **person covered** continues to receive **earnings** from any other form of employment or self-employment while they meet the definition of incapacitated in section 5, and
- the income from this plan together with the income from those other sources would exceed 55% of **pre-incapacity earnings**.

*Similar covers include ones that, if the **person covered** meets the definition of incapacitated, replace all or part of their **pre-incapacity earnings**.”*

- I appreciate Mrs K says the above terms are ambiguous, but I don’t agree. The terms explain that the receipt of earnings from any other form of employment or self-employment would lead to the benefit amount being reduced. This policy was designed to provide Mrs K with an income in the event of incapacity, and the money she went on to receive following her termination and outside the policy’s benefit did constitute earnings from other employment. So, I’m not persuaded that it was unfair or unreasonable of Royal London to treat Mrs K’s PILON and accrued holiday as earnings.
- Royal London appears to have calculated the earnings correctly. I know Mrs K disagrees with the way it’s approached this, but Royal London has already explained that even if her holiday pay had been paid in monthly instalments rather than in bulk for example, the calculation would have remained the same. Mrs K’s earnings were paid to her in bulk however, and as she was already in receipt of income protection at that point I don’t think it was unreasonable of Royal London to reduce her benefit in line with the policy terms cited above.
- I’m sorry to hear of the impact Mrs K says Royal London’s failings had on her. Royal London accepts it could have done more to communicate with Mrs K at times and has acknowledged it was responsible for some delays. I don’t see any benefit in reciting all of the failings Royal London was responsible for given it’s addressed those in its final response letter. But I am pleased that it has apologised for where it let Mrs K down.
- I’m also pleased that Royal London has offered Mrs K compensation. Compensation is designed to be a fair and proportionate reflection of the impact a business’s mistake has had on someone. I haven’t seen any medical evidence to demonstrate that Mrs K’s condition was exacerbated by Royal London, but I fully appreciate why she would have been upset by what happened and I acknowledge the stress and anxiety she says she was caused. I think £300 represents a fair and proportionate reflection of the impact of Royal London’s failings for those reasons too. I know Mrs K chose not to accept Royal London’s offer at the time it was made, but Royal London has confirmed it remains available to her and I think it should now be paid.

Putting things right

The Royal London Mutual Insurance Society Limited has already made an offer to pay £300 compensation to settle the complaint, and I think this offer is fair in all the circumstances.

My final decision

My final decision is that The Royal London Mutual Insurance Society Limited should pay the £300 it has already offered.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K to accept or reject my decision before 2 March 2023.

Jade Alexander
Ombudsman