DRN-3800291

The complaint

Mrs F complains American International Group UK (AIG) acted unfairly by failing to advise her cover was no longer valid, and continuing to collect premiums for many years.

What happened

Mrs F was a beneficiary of her employer's group income protection policy, underwritten by AIG. And one of the specifics of the policy was cancer cover. The policy terms stated cover would end after the policyholder was first diagnosed with cancer and benefits paid. And it also stipulated cover would end when the policyholder turned 65.

Mrs F was diagnosed with cancer in 2011 and AIG paid her claim. Based on the policy terms, the cover ended following this claim. However AIG failed to stop collecting Mrs F's premiums and didn't tell her the cover had ended. AIG continued to collect premiums from Mrs F over the following years, including after she turned 65, which was another point at which the policy stated cover would end.

In 2022, Mrs F was diagnosed with cancer again, and contacted AIG to make a claim. This prompted AIG to identify its mistake and it declined the claim.

Mrs F complained to AIG. It said cover ended after Mrs F made the first cancer related claim against her policy in 2011. It apologised for its error in continuing to collect premiums and refunded these, plus interest at 8%.

Unhappy with AIG's response, Mrs F brought her complaint to this service. An investigator here looked into what had happened. They said they thought AIG had acted fairly in refunding the premiums and paying interest. However they said AIG should pay a further £200 in respect of the distress and inconvenience it had caused.

AIG made no comment on the investigator's view. However Mrs F disagreed. In summary she said AIG had missed several opportunities to let her know her cover was no longer in place. And she thought the same error might be affecting a lot of other consumers.

As Mrs F asked for a decision from an ombudsman, the case has been 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.

And I've looked at the relevant rules and industry guidelines, which say AIG has a responsibility to handle claims promptly and fairly and shouldn't reject a claim unreasonably.

Firstly, whilst I appreciate the point Mrs F has raised about AIG having potentially made the same error for other consumers, this isn't something which I'm able to look into or comment on as part of this complaint. As a service our role is not to comment on the validity of processes operated by a business. That's the role of the regulator – the Financial Conduct Authority. Our role is to look at how rules and processes are applied to individual consumers' circumstances and, where they have created unfairness, how that unfairness can be resolved. So that's what I've gone on to consider.

AIG has accepted that it made an error in failing to tell Mrs F her cover was no longer valid after her claim in 2011, and in continuing to collect her premiums. It refunded the premiums collected in error, and paid interest at 8%. And that's what I would expect a business to do in these circumstances. To put things right, Mrs F should be refunded the premiums, as there was no longer any cover in place, and she should be paid interest over the time she has been without that money.

However I've also gone on to consider the distress and inconvenience caused to Mrs F. AIG didn't tell Mrs F her cover was no longer valid following her claim in 2011, and it also missed further opportunities to advise her, including when she turned 65. This led to Mrs F attempting to make a further claim in 2022 which was declined. I've considered the impact of this inconvenience to Mrs F, and I think the £200 the investigator recommended is fair. I say this because although AIG collected premiums in error over many years, Mrs F was unaware of the problem before 2022. And once AIG identified its error, it rectified it relatively quickly by cancelling the policy and refunding the premiums with interest. But I appreciate Mrs F was inconvenienced in having to correspond with AIG about this, and wasted time attempting to make a claim which wasn't covered.

Mrs F is also unhappy that she was unable to make a successful claim when she was diagnosed with cancer for a second time. However this isn't something I've taken into account when assessing the distress and inconvenience caused to her. And that's because the policy she had out was never intended to provide cover for more than one diagnosis of cancer. So regardless of AIG's error, a further claim would never have been covered.

I've also considered whether Mrs F lost the opportunity to seek cover elsewhere. However after having been diagnosed and treated for cancer in 2011, I think it's unlikely that she would have been able to easily obtain cover against a second diagnosis in the future, at that time. And if she had, I think it's most likely the costs of that cover would have been significant and much higher than the premiums she'd been paying to AIG. I've also reviewed the policy documentation, and I think it's made clear that cover will end after cancer is diagnosed and benefit paid. So although AIG failed to tell Mrs F this when she made her first claim, I think it's reasonable to expect that she should also have been aware of the limitations of the cover she had.

Putting things right

Overall I'm satisfied AIG acted fairly in refunding Mrs F's premiums and paying interest. However I think it needed to do more to put things right, and should pay compensation for the distress and inconvenience caused, as I've explained above.

My final decision

For the reasons I've given, it's my final decision that I uphold this complaint and direct American International Group UK to pay £200 in respect of the distress and inconvenience caused.

AIG must pay the compensation within 28 days of the date on which we tell it Mrs F accepts my final decision. If it pays later than this, it must also pay interest on the compensation, from the date of my final decision to the date of payment, at 8% simple.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 16 December 2022.

Gemma Warner
Ombudsman