

The complaint

The estate of Mr B's complaint is about the delayed pay out to the estate of the late Mr B's The Royal London Mutual Insurance Society Limited ('Royal London') with-profits bond. The estate of Mr B is unhappy with the interest rate Royal London has used in paying late payment interest on the death claim amount – it believes it should be at a rate of 8% instead of the Bank of England base rate.

What happened

The background and circumstances leading up to this complaint are well known to both parties, so I haven't set out everything in detail here. The following is a summary of what's happened.

Mr B held a with-profits investment bond with Royal London. Mr B died in September 2020 and The estate of Mr B notified Royal London of his death on 8 December 2020.

On 21 December 2020, Royal London sent The estate of Mr B the required claim forms and set out what else they needed for the claim on the late Mr B's policy to be actioned. This included an original grant of representation and relevant identification from the claimant. The letter confirmed the value of the policy – just over £38,000 – and it said that interest would be added from 8 December 2020 to the date of settlement.

On 15 December 2021, Letters of Administration were issued, which showed that the administration of the estate had been granted to a lawful attorney. The estate of Mr B sent it to Royal London, which it logged as being received on 13 January 2022.

In February 2022, Royal London chased up The estate of Mr B for the outstanding documents required to pay the claim. On 31 May 2022, Royal London received the documentation from the attorney. The last outstanding item at this time – a further piece of identification – was received on 21 June 2022.

On 29 June 2022, Royal London requested from the attorney a copy of the PA12 Power of Attorney form used to apply for the Letters of Administration. And following non-receipt, they issued a number of reminder or chaser letters.

During this time, The estate of Mr B wrote to Royal London a number of times asking about the interest rate they would use for the late payment interest, saying it expected it should be at least equivalent to inflation. Royal London's most substantive response was in October 2022, when it said the interest rate it used was in line with Bank of England interest rates and not inflation – currently on average it paid 0.5%.

It said late payment interest was a means of compensating for lost interest over the period from notification of death to the payment release date. It reminded The estate of Mr B that the PA12 form it required to process the claim remained outstanding.

In December 2022, The estate of Mr B complained to Royal London. It said there was no earlier reference to them paying interest in line with Bank of England rates; it asked what

further information they required for the claim having already sent the Letters of Administration; it referred to inflation rates between December 2020 and October 2022; and it said that it understood statutory late payment interest is 8%.

On 13 January 2023, Royal London issued its final response not upholding the complaint. They said they weren't obliged to pay late payment interest, but where it is due it would be paid in line with Bank of England rates and not at 8%. It also said that the PA12 form was needed to finalise the claim.

Dissatisfied with its response, The estate of Mr B referred its complaint to us. It said that payment of the claim had not yet been made, it had provided it with Letters of Administration, and it believed late payment interest should be based on inflation to maintain the policy claim value.

Royal London repeated that it was still waiting for the PA12 form to complete things and that as a gesture of goodwill it paid late payment interest as standard on claims like this one, which would be paid at 0.5% and not the rate of inflation. It also provided a copy of the policy's terms and conditions, which referred to late payment interest if it was caused by an unreasonable delay in payment, and that the interest rate used would be a 'reasonable rate of interest.'

One of Investigators considered things. They ultimately concluded that it wasn't fair or reasonable for Royal London to continue to prevent payment of the claim given The estate of Mr B had provided them with the Letters of Administration, which appeared to contain all of the information it needed. They said Royal London hadn't provided a satisfactory explanation why it still needed the PA12 form before releasing the funds. They said, in any event, The estate of Mr B had told them it didn't have the form. They recommended Royal London should pay The estate of Mr B the claim funds immediately. And they said, it was their view that Royal London's offer to pay late payment interest at the going Bank of England base rate was fair in the circumstances.

Royal London agreed to continue with the claim without the need for the PA12 form and on 27 November 2023, the claim payment was made to The estate of Mr B, including late payment interest of £453.74 after the deduction of income tax at 20%.

The estate of Mr B said it still wasn't happy with the interest rate Royal London had used to calculate the late payment interest. It asked for a copy of the calculation, and it also repeated its complaint point that Royal London should have released the claim funds sooner when the Letters of Administration were provided.

Because things couldn't be resolved informally, the complaint was passed to me for a final decision.

Before reaching my decision and in response to my request of Royal London to clarify the interest rate it had used for the entire period of the late payment interest calculation, and to provide a breakdown of that calculation, they made a revised offer. In doing so, they highlighted that it was a one-off decision in this case to waive the normal business requirement to obtain the PA12 form in a scenario such as this.

They said their revised offer was to pay late payment interest at a rate of 5.5% for the period 8 December 2020 (notification date) to 27 November 2023 (payment date) minus the interest already paid.

I put the revised offer to The estate of Mr B. I said I thought in the circumstances it was a fair way to settle the complaint. In summary I said the terms and conditions of the late Mr B's

policy said interest would only be added to the payment amount if Royal London unreasonably caused a delay in payment. I said Royal London's offer was on a goodwill basis and it was willing to pay interest from the date of notification of Mr B's death to the date of payment. I said I hadn't yet decided whether the claim payment delay was because of something Royal London did wrong. If I decided they had caused the delay, I said while I might choose to award the higher rate of interest of 8% on the claim amount if I thought it was appropriate, it would likely be from the point I deemed Royal London ought reasonably to have made payment. So, I said it was likely the compensation overall would be no more than and possibly lower than Royal London was offering.

The estate of Mr B indicated it wasn't willing to accept the offer and resolve things informally. It referred to its letter to Royal London of December 2023 in which it asked for a breakdown of the original late payment interest amount. It also queried why income tax had been deducted from the interest award given the policy was free of basic rate income tax and it asked for it to be reimbursed without delay.

I think in the circumstances the matter is best resolved by way of a final decision.

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 can see that Royal London maintains that its business decision to have sight of the PA12 form in situations where Letters of Administration state they have been obtained by an attorney, before making payment for a policy death claim remains valid. They say decision to make payment in The estate of Mr B's case and waive this requirement, relying on the other documentation already provided, was a one-off. Nevertheless, Royal London has offered to pay late payment interest at a revised and increased rate of 5.5% (less what it has already paid) – an offer that I think in the circumstances is fair. So, I don't see the need to address in any great detail the causes of and reasons for the delay in Royal London making payment of the policy claim. Instead I'll focus in this decision on Royal London's offer and how to put things right, as this is ultimately where the disagreement lies.

But I would like to note that I agree with the Investigator's view, for broadly the same reasons, that it was not fair and reasonable in this case for Royal London to have prevented payment of the claim and still insisted upon sight of the PA12 Power of Attorney form.

It is not clear to me why, when Royal London had received the Letters of Administration giving administrative powers to the attorney, why it still needed sight of the form that would've been used in the process of applying for the Letters of Administration. In my view, this fairly and reasonably provided the personal information Royal London needed – along with the other documentation the attorney provided, which included suitable copies of their identification proving who they were – to pay out the policy claim amount. All of this provided the names and addresses of the parties concerned. It's not clear to me what more the PA12 form would've provided Royal London with that was necessary to determine who to make the claim payment fairly and reasonably to. In my view, the information Royal London said the PA12 form would provide in their letter to the attorney of 8 December 2022, was already provided by the Letters of Administration.

In any event, it is apparent that the PA12 form wasn't held by the attorney or the estate of Mr B. Royal London says it was only notified of this in November 2023. But I think Royal London could reasonably have established this fact earlier on by making attempts to establish the reasons why it hadn't been provided rather than simply making repeated requests for the form from June 2022 onwards. Had they done so, I think the matter could have been resolved sooner.

Overall, I don't think it was fair and reasonable for Royal London to delay the release of the funds to The estate of Mr B for as long as it did.

Putting things right

As I said above, I'll focus here on how to put things right given this remains the source of disagreement.

Taking everything into account, I think Royal London's revised offer to pay late payment interest on the claim amount at a rate of 5.5% a year from 8 December 2020 to 27 November 2023, less what it has already paid to The estate of Mr B, is fair in all the circumstances. I'll explain why.

Firstly, in relation to late payment interest, the terms and conditions of the policy in question say: 'We will decide and use a reasonable rate of interest.' In my view, an interest rate of 5.5% for the period in question is reasonable. Between the relevant dates, the Bank of England base rate ranged from 0.1% to 5%, only reaching this level in August 2023. Up until May 2022, the base rate remained below 1%. So, using a rate of 5.5% is greater than the Bank of England base rate for the entire relevant period.

The interest payment is designed to compensate for loss of investment opportunity. A rate of 5.5% is in my view higher than could typically be obtained in a cash-based bank deposit account for the relevant period. I've seen no evidence that The estate of Mr B had to borrow money for example while waiting for the claim payment, which might mean it was appropriate to award a higher interest rate to compensate it fairly.

I'm also mindful that Royal London has used the date of notification of death as the starting point for the calculation of late payment interest. The policy's terms and conditions refer to: "After you meet our requirements for payment of benefit" before consideration of late payment interest and whether any unreasonable delay was caused. So, as I explained to The estate of Mr B, even if I thought a higher interest rate award was appropriate here – say 8% as The estate of Mr B believes is fair – a fair starting point for late payment interest in my view would be at the point when I think Royal London reasonably had what it needed to pay out the claim. And this was around June 2022. So, the period the interest would be payable over in this scenario would be shorter. This would likely mean that, even using the higher interest rate, the overall compensation payment would not be more than and could be less than Royal London has offered. In my view, it would be unfair to award The estate of Mr B an amount of compensation, which might be lower overall than Royal London has said it is willing to pay.

So, for these reasons I think Royal London's offer is fair. Royal London should therefore do the following:

- Pay The estate of Mr B interest at a rate of 5.5% a year on the amount of the claim payment (£38,007.41) for the period 8 December 2020 (date of notification of death) to 27 November 2023 (date of payment.)
- Deduct from this amount, the amount of late payment interest it has already paid to The estate of Mr B.
- Send The estate of Mr B a copy of the workings, calculation or breakdown of how it has arrived at the above.

The estate of Mr B has questioned the deduction of basic rate income tax on the interest award. Interest such as this is usually taxable as income.

If Royal London considers that they're required by HM Revenue & Customs to deduct income tax from that interest, they should tell The estate of Mr B how much they've taken off. As Royal London has previously done, they should also give The estate of Mr B a tax deduction certificate, so it can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

I uphold this complaint and I require The Royal London Mutual Insurance Society Limited to pay The estate of Mr B compensation, as it has offered to do and as I have set out above. I make no other award.

Under the rules of the Financial Ombudsman Service, I'm required to ask The estate of Mr B to accept or reject my decision before 8 May 2024.

Paul Featherstone

Ombudsman