

The complaint

Mr H complains that Canada Life Limited gave him incorrect information about the benefit end date for a claim he made on a group income protection insurance policy.

What happened

The background to this complaint is well-known to both parties, so I've set out a summary of what I think are the main events.

Mr H is insured under his employer's group income protection insurance policy. The terms of the scheme contract say that Canada Life will pay incapacity claims for up to five years.

Unfortunately, Mr H became unwell and was unable to work. In 2019, his employer made an incapacity claim on his behalf. In December 2019, Canada Life sent Mr H and his employer letters which either offered Mr H a lump sum settlement or the option for Canada Life to continue to assess his claim. The letter stated that if a claim was payable, the maximum date it could be paid up to was Mr H's state pension age around 20 years later.

Following Canada Life's letter, Mr H's employer contacted it to clarify that under the terms of the group contract, the maximum benefit period was, in fact, five years.

Mr H turned down the offer of a lump sum settlement and opted for continued claim assessment. He told Canada Life that he hoped to be able to return to work, with reasonable adjustments. His claim was ultimately accepted and payment under the policy began.

In July 2022, Mr H learned that payments under the policy would end in March 2024. He complained to Canada Life, as he said he'd relied on the information it had given him in December 2019 to his detriment. He said if he'd known the benefit payment period was limited to five years, he'd have made very different financial decisions – especially in respect of his mortgage.

Canada Life maintained its position and so Mr H asked us to look into his complaint. He felt that Canada Life should maintain his income protection benefits for at least another three years.

Our investigator didn't think it would be fair to ask Canada Life to extend the benefit payment period beyond the five year term. But she did think Canada Life ought to have notified Mr H that it had made an error in its letter of 2019. And she thought Mr H had suffered distress and inconvenience as a result of Canada Life's initial error and its failure to correct its mistake. So she recommended that Canada Life should pay Mr H £500 compensation.

Neither Mr H nor Canada Life agreed with the investigator and so the complaint's 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.

Having done so, whilst I'm sorry to disappoint Mr H, I think the fair outcome to this complaint is for Canada Life to pay him £500 compensation and I'll explain why.

First, I'd like to reassure Mr H and Canada Life that whilst I've briefly summarised the background to this complaint and their detailed submissions to us, I've carefully considered all that's been said and provided. In this decision though, I haven't commented on each point that's been raised and nor do our rules require me to. Instead, I've focused on what I think are the key issues.

It's also important that I make clear that this decision will only consider whether I think Canada Life is reasonably entitled to limit payment of Mr H's claim to a five-year period. I appreciate Mr H has previously complained to us about the way Canada Life handled his claim. That complaint has already been considered separately and so I won't be commenting further on any of the issues which we addressed under the previous complaint.

The relevant regulator's rules say that insurers must handle claims promptly and fairly. And the regulator's principles say that financial businesses must pay due regards to the interests of their customers and treat them fairly. So, amongst other considerations, I've taken these rules into account, together with the policy terms and available evidence, to decide whether I think Canada Life treated Mr H fairly.

Canada Life has provided us with a copy of the group scheme policy schedule. This sets out the cover terms which were agreed by Mr H's employer and Canada Life. The schedule clearly shows that under the terms of this particular scheme, the payment of benefit is limited to a five-year period. So I'm satisfied that under the terms of the contract Canada Life entered into with Mr H's employer, it was entitled to stop paying claims after a claim had been in payment for a five-year period.

However, it's common ground that in December 2019, Canada Life wrote to both Mr H and his employer. The letters set out an offer of settlement – either offering Mr H a lump sum of £69,000 in full and final settlement of his claim without the need for further claim assessment. Acceptance of the offer meant that Mr H would waive any future right to claim a monthly incapacity benefit. Alternatively, he was offered the option to continue with claim assessment. The documentation made it clear that a claim might not ultimately be successful. Canada Life offered Mr H £300 to allow him to seek legal and financial advice.

The documentation stated that if a claim was successful, the maximum claim date would be around 19 years later. This was a clear error on Canada Life's part. It's important I make clear that generally, I wouldn't think it fair and reasonable to require a financial business to effectively make a misrepresentation true, unless I was satisfied that clearly evidenced, reasonably foreseeable loss had flowed from a mistake. And so I need to think about what losses might have flowed from such an error and what, if anything, Canada Life must do to put things right.

In doing so, it's important that I take into account the nature of the contract and previous communications Mr H had had about the policy. The contract of insurance is between Mr H's employer and Canada Life. While Mr H is a beneficiary of the policy, he is not a policyholder. Canada Life isn't *obliged* to send any policy information to Mr H. And in my experience, it's not unusual for income protection insurers to only send policy and claims information to the group policyholder – usually an employer.

I'm mindful too that in March 2019, at the point Mr H's employer suggested he make a claim, the email it sent him specifically refers to the benefit period being limited to five years. Mr H

acknowledged that he received this email. He's referred to being aware previously that benefit payment was limited to a five-year period.

However, I can understand why, when Mr H received Canada Life's settlement offer in December 2019, he understood that if he were to proceed with claim assessment, any successful claim might be paid up until his state pension age. I think this was a reasonable expectation, based on the content of the documentation he was sent. After all, Canada Life was acting as the expert in this situation. And the evidence clearly shows that Mr H's employer notified Canada Life about its mistake very promptly after the offer letter was sent. Canada Life acknowledged its mistake and amended its records to reflect a five-year benefit period.

As I've explained, Canada Life was under no obligation to contact Mr H and correct its mistake at this point. But, in its final response letter, it accepted that it would have been beneficial for it to do so. And it had previously communicated with both Mr H and his employer about the claim, which indicated that it wasn't limited to contacting Mr H's employer only. In these circumstances then, given the clear error and the disparity between the actual benefit dates and potential claim dates, I think it would have been fair and reasonable for Canada Life to also contact Mr H to alert him to the error in the settlement offer. If it had done so, I think any trouble or upset Mr H was likely to have suffered would have been minimal.

Instead, Mr H didn't find out that benefit would be ending in March 2024 until over two years later. Given the potential impact of the termination of the claim on Mr H's financial situation and his life, I do think this is likely to have come as a real shock to him. And it's clear that it's caused him significant, material upset and inconvenience. This means that I do think that Canada Life should pay Mr H fair compensation to reflect this. I've gone on to think about what losses I think Mr H has shown he suffered and what fair compensation should be.

Mr H believes that Canada Life should pay his claim for a further three-year period, to enable him to settle his mortgage. He says that had he known the true position in 2019, he might have taken very different financial decisions, especially in regard to his mortgage. So he feels Canada Life has materially prejudiced his financial position. I've considered this carefully.

It's clear that Canada Life's letters of December 2019 set out a settlement – offering Mr H the choice between a lump sum payment or to continue with claim assessment. It offered Mr H a full and final settlement amount of around £69,000. I've looked at the monthly benefit amount Canada Life calculated that Mr H would be due. This was around £6,900 per month. So the offer Canada Life made Mr H was less than he'd be paid if he claimed successfully for even one full year. And it was substantially less than Mr H would be paid if he was paid for the full five-year limited benefit period. Mr H said he'd taken some initial advice (although it isn't clear who this was from) and had decided against accepting the offer. On balance, it seems to me that even if Canada Life had clearly stated the correct payment end date in its offer documentation, Mr H is still most likely to have turned down the offer of a lump sum settlement. It's clear to me too that given the claim's been in payment for a broadly five-year period, he's substantially better off than he would have been had he accepted the offer. So I don't think I could reasonably conclude that the error in the offer documents caused Mr H to turn down the lump sum settlement when he wouldn't otherwise have done so.

Nor has Mr H provided either Canada Life or us with any evidence that but for any misinformation, he could have paid off his mortgage at this point or gone without a mortgage at all. Neither has he provided evidence that he could have taken out a mortgage on different terms or that he could have prioritised the payment of his debts differently. And importantly, when Mr H declined Canada Life's lump sum settlement offer, he specifically referred to

hoping to return to work after he'd begun treatment a few months later. This is highly suggestive that Mr H didn't expect to still be incapacitated in 19 years' time. It seems rather that he felt he'd be in a position to return to work a few months into the claim. So I don't think I could fairly find it's more likely than not either that he would have relied on being paid up until state pension age, or that he's suffered a financial loss which directly and foreseeably flows from Canada Life's mistake in its offer letter.

On that basis – and given the terms of the insurance contract – I don't think I could fairly direct Canada Life to extend the relevant benefit payment period.

Nonetheless, as I've set out above, I am persuaded that Mr H has suffered material, significant, foreseeable distress and inconvenience as a result of Canada Life's failings here. I do think it could have taken clear steps to put things right much earlier in the claims process. I'm satisfied that this has had a real impact on Mr H at a time when he's already incapacitated. I was sorry to hear about his concerns and the upset this matter has caused him. And so I agree with our investigator that in the particular circumstances of Mr H's complaint, a fair award of compensation is £500. Therefore, I'm directing Canada Life to pay this amount to Mr H.

My final decision

For the reasons I've given above, my final decision is that Canada Life Limited must pay Mr H £500 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 15 February 2024.

Lisa Barham
Ombudsman