

## The complaint

Mr W complained that Scottish Widows Limited had failed to explain the difference between the surrender values of two Income Protection policies taken out around the same time.

To put things right, Mr W wanted Scottish Widows to pay him more financial compensation than it had offered in relation to admitted shortcomings in service.

## What happened

In the 1980s, Mr W arranged two Income Protection Policies. I'll refer to these as policy W and policy H. He recalls taking these out within six weeks or so of each other and he paid similar premiums for similar amounts of cover. The policies were arranged to provide cover up to Mr W's 60th Birthday.

When Mr W took early retirement in 2018, he surrendered the policies and received settlement cheques of around £222 and £216 respectively (*amounts are rounded to the nearest pound*).

In July 2022, Scottish Widows contacted Mr W to tell him that it had identified and fixed an error on policy W, resulting in a £946 payment being made to him.

This prompted Mr W to contact Scottish Widows about policy H. When Scottish Widows looked into this, it identified an error had been made in relation to this policy also. Scottish Widows sent Mr W a payment of £125 to put this right.

Mr W asked Scottish Widows to explain what he referred to as '*discrepancy*' between the pay outs on policies that he considered were '*identical*'.

Scottish Widows explained that unpaid monthly charges had incorrectly accrued on Mr W's policies due to a '*system error*'. It acknowledged responsibility for what had happened and said it had decided to write off all charges which were not applied correctly. It provided details showing the amounts paid to him reflected incorrectly applied charges, plus 8% interest (adjusted for tax). Scottish Widows agreed that it had made '*a few clerical errors*' and the service it had provided fell below expectations since Mr W had needed to chase on the phone and spend a significant amount of his time trying to find answers. Scottish Widows apologised for the distress and inconvenience this had caused and said it would post him a cheque for £150.

Mr W didn't feel this went far enough to resolve things and so he brought his complaint to us - saying also that he hadn't received the promised £150 from Scottish Widows.

One of our investigators looked into the complaint. She said, given that Scottish Widows had provided some information showing that policy W had a larger benefit and the charges and monthly premiums were higher, she could understand why the charges refunded for policy W were significantly higher than for policy H. So she didn't feel she had seen enough to show that Scottish Widows had acted unfairly. She felt though that £200 would be fair compensation for distress and inconvenience.

Mr W remained concerned that he'd had no proper explanation for the difference in surrender values – and said he never received a cheque for £150 from Scottish Widows. He asked for an ombudsman to make a final decision.

Scottish Widows told us that it cancelled the £150 cheque issued as it wasn't encashed and it was awaiting a final decision.

The complaint came to me to decide. I issued a provisional decision.

### **What I said in my provisional decision**

Here are some of the main things I said.

It's part of my role to identify and concentrate on the core issues I need to address in order to reach a fair outcome. It's my understanding that the crux of Mr W's complaint is that similar redress should be owed in respect of both policies, which he has described as more or less the same (save for a small difference in premium due to him taking out policy W just before his birthday and starting policy H just after). He puts things this way: *'... had the two settlement figures in 2018 ... not been as identical within reason as they were - a query would have been raised at that time and I would not have subsequently destroyed the original (policy paperwork). Thus I cannot understand how they can say with any certainty the policies are different...'* So I have made this the main focus of my decision.

Where there are gaps in the information available, my role is to evaluate the evidence presented by both parties and reach an independent, fair and reasonable decision. I have to be impartial and give due weight to what both parties say. This can mean having to make some reasonable assumptions.

It's not in dispute that there were two policies. Without sight of the original respective policy documents, I don't know if policy H and policy W were *'identical'* – the exact terms and conditions of the policies are unknown because neither party can now provide the original policy documents. But this isn't surprising after so long and it makes no difference to the outcome.

I think it's likely, as Mr W says, that in all material respects these policies were very similar and together they provided the full amount of the cover he was looking for when he took out income protection. And I can understand why, when he received back broadly similar amounts on surrender in 2018, this was in line with his expectations.

But Scottish Widows had worked out the surrender values incorrectly in 2018, and wrongly deducted from the payments it made to Mr W amounts it had mistakenly applied due to a system error.

When, some three years later, Scottish Widows identified this error and reworked the surrender value of Mr W's policies, it seems that substantially more debt charges had been applied on policy W – more than £756 as opposed to less than £100 incorrectly applied on policy H.

I don't know the reason for that – but the limited information I've seen shows that:

- Mr W held 200 more units within policy W compared to his policy H holding.
- For policy H, from 2009 Mr W accepted a premium increase from around £6 to £8.50 to maintain the benefit of the sum assured of £460.

- On policy W, between 2001 and 2011, Mr W opted for premium increases that meant he was paying £7.29 for sum assured of £502.
- So it's fair to say there were some differences between the policies in terms of what Mr W was paying for the cover and the benefit he could expect each policy to provide. And it's reasonable to think this might have impacted on the way surrender values were calculated in 2018.
- It's agreed that there was a problem with the way Scottish Widows' system worked, resulting in the surrender value of policies in 2018 being wrongly worked out. But I haven't seen enough to show that when something went wrong with Scottish Widows' system, the error necessarily impacted the same way on each policy. All that seems to be known with any degree of certainty is that the system wasn't working as it should have been.
- I've also taken into account that the interest Scottish Widows added on to the redress it paid in 2022 had the effect of boosting the differential in the payments on each policy.
- Keeping all this in mind, what Mr W describes as the '*dichotomy in the settlement error of over £800*' isn't a good enough reason alone for me to say that there is a shortfall and Mr W must be owed further redress.
- And even if there's no good reason for the policies to be redressed differently as Mr W seems to be suggesting, I've seen nothing to show that redress was more likely to be correctly worked out on Policy W or not done correctly on policy H. So it doesn't automatically follow that there would be a shortfall in the redress Scottish Widows has paid Mr W.
- It follows that I can't fairly make a finding that the difference in redress amounts that Mr W complains about is the result of Scottish Widows acting unfairly or unreasonably. Scottish Widows has paid Mr W an amount in respect of each policy to provide redress for the respective charges that it worked out had been wrongly applied, plus interest (as we would expect it to do in this situation). This reflects our approach of putting Mr W into the position he would've been in, but for Scottish Widows' system error.

Nevertheless, fair compensation isn't just about not being worse off in money terms – it needs to properly reflect the full impact on Mr W of Scottish Widows' service failings on this occasion. Scottish Widows agrees that its customer service fell below the standard Mr W was reasonably entitled to expect and offered to pay £150 to reflect the distress and inconvenience caused.

There's information on our website which explains the Financial Ombudsman Service approach. In all the circumstances here, I think that £200 is more broadly in line with the level of award I consider fair to reflect the extent and impact on Mr W of service failings on Scottish Widows' part. It's clear that Mr W had to keep pressing Scottish Widows for information that ought to have been provided to him more promptly and that this has proved to be a frustrating and time consuming experience for him. I am satisfied that £200 as recommended by our investigator is in line with the amount this service would award in similar cases and it is fair compensation in these particular circumstances.

## **What the parties said in response to my provisional decision**

Mr W commented on what I'd said in my provisional decision, taking issue with some of the conclusions I had reached, and he sent me some additional, more recently obtained information. In very brief summary, he didn't feel legitimate questions he'd asked had been answered and he suggested more could be done to further the investigation and press for missing documents. He concluded his detailed representations saying: *'I will accept your award for the poor way the complaint was handled - but it has never been answered.'*

Scottish Widows didn't comment on my provisional decision. It has said already that it is waiting for my final decision and as the deadline for responses has now passed, I think it's reasonable for me to proceed with my review of this complaint.

## **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'd like to thank both parties for all the information that has been provided about this matter and Mr W for responding to my provisional decision.

I've taken carefully into account everything that's been said in response to my provisional decision. I'd like to assure Mr W that I've thought carefully about everything again before coming to my final decision. And whilst I have highlighted above only what seem to me to be his main points of concern, I have read thoroughly and taken into account everything he has asked me to reconsider.

I haven't been provided with any new information that changes what I think about this case. I'd already considered all the main points mentioned by Mr W when thinking about my provisional decision. I have addressed in my provisional decision all the points which have a bearing on the outcome. I appreciate that Mr W takes a different view to me as, of course, he is entitled to do. But I still think the conclusions I have reached are fair and the award of compensation proposed is reasonable, for the reasons I explained more fully in my provisional decision.

## **Putting things right**

Scottish Widows should pay Mr W a total amount of £200 redress.

## **My final decision**

I uphold Mr W's complaint and direct Scottish Widows Limited to take the steps set out above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 7 March 2024.

Susan Webb  
**Ombudsman**