

The complaint

Mr T complains that Scottish Widows Limited have been charging too much for his increasing income protection plan.

What happened

As the background to this complaint is known by both parties I'll only provide an overview of what happened.

Mr T took out an income protection plan in 1993. It was sold on a non-advised basis and intended to provide benefit in the event of him becoming incapacitated and unable to work. An 'increasing' benefit option had been chosen for the policy too, and that attracted an automatic annual benefit increase of 7.5%.

In 2021 Mr T complained about his policy – raising concerns about its sale, the automatic benefit increases, and the service provided by Scottish Widows – and went on to surrender it too.

For reference, the business that sold Mr T's policy responded to his sale concerns. That matter has been considered by this service under a separate reference already and does not form part of this decision.

Separate to that, Scottish Widows said it was satisfied that it had applied the benefit increases in line with the relevant policy terms. But it did agree that it hadn't provided a satisfactory level of service to Mr T at times and paid £1,000 compensation to reflect that.

Mr T remained unhappy with Scottish Widows' position and asked this service to look into things. In doing so he told us that whilst he had wanted the cover, he'd paid too much for it and was never going to get value for the automatic increases so a refund of premiums was warranted.

Our investigator did not uphold the complaint. They said the policy documentation confirmed it would increase by 7.5% each policy year which reflected the 'increasing' option Mr T had chosen to apply when he bought the product. They said as the increases were automatic Scottish Widows hadn't acted unreasonably or treated Mr T unfairly in applying them. And that while there'd been failings in the level of service provided, Scottish Widows had awarded an amount that fairly compensated Mr T for the trouble and upset that had caused.

Mr T disagreed and asked for his complaint to be determined by an ombudsman. Again, I won't repeat everything he said in response to our investigator's opinion here, but Mr T reiterated his concerns about the policy increases and the actions of Scottish Widows. He said it was reasonable of Scottish Widows to refund around half of what he'd paid given recent quotes had shown he'd be charged less to cover his current salary. He said he hadn't received all of the information he should have from Scottish Widows to help him review his ongoing situation and make an informed choice about the policy. And that his complaint was an example of a business hiding behind its small print.

So, the matter is now for 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.

Mr T has set out his position at length and clearly feels very strongly about what happened. Although I've only summarised what happened I have carefully considered everything that both sides have said. I do however want to highlight that I'll not be addressing each and every point that has been made. I will instead be focussing my decision on those matters I think are material to the outcome of this complaint.

It's not disputed that Mr T's policy was provided on an increasing benefit basis. The application form completed for his policy in 1993 requested an increasing benefit. The policy schedule confirmed the benefit amount was "**£725.00 per month (Increasing)**". And the policy terms and conditions explained:

"5.2 Increasing Income Benefit

(a) If the Income Benefit Amount is stated in the Policy Schedule to be "Increasing" the amount of such Income Benefit shall be automatically increased at the rate of 7.5% per annum compound on each anniversary of the Date of Commencement (the "Policy Anniversary") up to and including the Policy Anniversary prior to the Expiry Date.

(b) The Premiums shall also be increased at each Policy Anniversary having regard to the amount of increase in the Income Benefit at the time, the Income Protection Plan rates of premium maintained by the Company at the time and any special terms of acceptance imposed prior to the commencement of the Policy..."

So, I don't think it would be fair of me to find that Scottish Widows had acted unreasonably in applying this increase given it was what Mr T had both requested and then purchased.

Mr T has explained that in reality his income did not increase by 7.5% per annum and as such he felt he was paying more for his cover than he'd get the value of. He has also explained that Scottish Widows should have known salaries in general were not increasing at that rate either. And that given it reviewed the policy every 5 years it should have known the product wasn't fit for purpose and reached out to him and others similarly affected.

Mr T will appreciate it isn't appropriate of me to comment on wider-reaching matters, such as the general rate of salary increases. My role is to consider the circumstances of this particular complaint. Whilst I understand the position Mr T is taking in relation to his salary, I must bear in mind that the increasing benefit was something that was specifically requested when he applied for this policy. And Scottish Widows adhered to that. There were provisions within the terms that permitted the insured to request a stop be put on the increasing element too, but I can't see that this was something Mr T requested.

Scottish Widows has explained the five year reviews were intended to determine that the premiums allowed the cover to continue at the agreed levels. These reviews were however separate from the 7.5% automatic increase, so I don't think it would be fair of me to conclude that Scottish Widows should have known Mr T no longer felt the cover suited his needs without Mr T making this known to it. I do empathise with Mr T's frustrations about the automatic increases and the value he felt the policy was no longer offering, but in all the circumstances I'm not persuaded I can fairly direct Scottish Widows to refund his premiums.

Having said that, I can see that Scottish Widows has already accepted it failed Mr T in relation to some of the service it provided and has paid £1,000 in compensation to reflect that.

Compensation is intended to be a fair and proportionate reflection of the impact of a business's mistake on someone. I won't recite each service failing here because they are known to both parties. But I can see, for example, that Mr T was caused unnecessary frustration over a sustained period of time as a result of Scottish Widows' levels of communication surrounding his concerns. I can also see that Mr T did not always receive some of the correspondence he had expected during the lifetime of the policy, such as annual statements, and that some of the reviews Scottish Widows should have carried out weren't completed.

Mr T has said he wasn't able to make an informed choice about the policy in view of the missing statements, but I'm not persuaded I can fairly agree with this. I say this because Mr T had purchased the policy in 1993, many years before some of the statements were missed. He had asked for the policy to include an increasing benefit, and the policy documentation made it clear that increase applied. So on balance I think Mr T had enough information about the policy available to him to know that his benefit would be increasing annually at a rate of 7.5%.

Of course that's not to say that Mr T wasn't caused both frustration and inconvenience by Scottish Widows' failings. I accept that he was. But without wanting to detract from that in any way, in all the circumstances I think the £1,000 already awarded represents a fair and proportionate reflection of that impact. As such, I won't be awarding an increase to it.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 22 April 2024.

Jade Alexander
Ombudsman