

The complaint

Mr J complains that The Royal London Mutual Insurance Society Limited incorrectly stopped collecting the premiums for his life and critical illness cover policy, which caused the policy to be cancelled.

What happened

In 2005, Mr J took out a level term life and critical illness cover policy, with a sum assured of £29,298, premiums of £30 per month and an expiry date of 5 June 2025. Mr J also held a pension policy with Royal London. In March 2020 Mr J cancelled his pension direct debit with his bank. Royal London received that cancellation request through a system called ADDACS on 30 March 2020 and the reference the bank gave was the policy number for the pension, followed by 'etc'. Due to it containing the phrase 'etc', Royal London took this to mean the request was for all Mr J's policies with them, and so stopped collecting premiums for both the pension and the life and critical illness policy.

Royal London wrote to Mr J on 30 March 2020 and again on 21 June 2020 asking him about the direct debit and as they received no reply, the policy was cancelled in July 2020. In June 2022, Mr J was checking his bank statements for a different transaction and noticed the premiums hadn't been paid, so he got in touch with Royal London, which is when he was told the policy was cancelled. He made a complaint, but Royal London didn't uphold it, saying they had followed the correct procedure, so he brought the complaint to our service.

An investigator at our service looked into the complaint and upheld it, saying that Royal London shouldn't have cancelled the direct debit for this policy. However, he felt it wasn't reasonable to ask Royal London to reinstate the policy, as he felt Mr J ought to have noticed sooner that the premiums hadn't been taken. He recommended £150 compensation. Royal London didn't agree, because they maintained they had followed the correct procedure. Mr J didn't agree either as he disputes receiving any of Royal London's letters, especially as they were sent in the first lockdown of the Covid pandemic. So, the complaint was passed to me for a decision.

I requested further information from Royal London about their procedure when receiving a direct debit instruction that included the phrase 'etc'. Initially they said this was derived from the rules applying to this type of payment, but later said it was actually their business procedure, interpreting the normal definition of 'etc' to mean all similar things, based on other experience with banks. Royal London also explained that their post rooms were operating as normal in Covid.

I issued a provisional decision, the findings of which are set out at the end of this document.

Replies to my provisional decision

Mr J got in touch to say he was happy with the decision.

Royal London replied and said they had no further points to raise, other than to reiterate that they hadn't added the phrase "etc" in the direct debit mandate.

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, I've not been persuaded to depart from my provisional findings, and I make them final.

I appreciate that Royal London aren't responsible for the instruction including that phrase – the instruction they sent to Mr J's bank solely has the pension policy number as the reference. However, I've not seen evidence that convinces me that Royal London's interpretation of the "etc" phrase was reasonable – either in general, or in Mr J's case specifically. As it doesn't appear to be widely interpreted in the way Royal London interpret it, Mr J's bank couldn't reasonably have foreseen that Royal London would cancel all premium collections because of its use. So, I'm not convinced that the matter of whose fault it is that "etc" was included in the reference changes the outcome I've reached.

Putting things right

Royal London should reinstate the policy on its original terms until the end of its term in June 2025, and Mr J should pay the premiums for the months it's in place going forward. If a successful claim is made between now and the end of its term, then Royal London would be entitled to deduct the premiums Mr J hasn't paid since 2020 from that claim. However, if no claim is made and the policy reaches its end, Royal London would not be entitled to charge Mr J for the missed premiums, as they've not had this policy on risk for the last four years. Royal London should pay Mr J £150 for the distress and inconvenience they've caused.

My final decision

For the reasons set out, I uphold this complaint. My final decision is that The Royal London Mutual Insurance Society Limited should pay Mr J £150 compensation and reinstate his policy until the end of its original term.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 17 July 2024.

My provisional decision

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, I'm not convinced Royal London have acted fairly here, both in cancelling the direct debit and in the communication they subsequently sent Mr J. Mr J clearly had no intention of cancelling his direct debit for this policy – and having seen a screenshot of his direct debits from his bank, it is still showing as active today. Though I understand Royal London's definition of the term 'etc', they've not convinced me that this is used as standard industry practice. For instance, they've not shown that every bank intends for it to be used in this way, and so it would be reasonable for any insurer to interpret it in this way, as a result. It doesn't appear in rules or guidance around this type of payment.

In addition, all the payments Royal London had been receiving for the pension, will have all been sent with the reference ending 'etc' as this is how they've always appeared on Mr J's bank statement. So, if Royal London had checked the history of the pension policy and

anything they'd have received via the payment system, they would have realised the 'etc' wasn't an instruction, but simply how the reference always appeared. Overall, I'm satisfied Royal London shouldn't have cancelled the direct debit, and but for their actions, the policy would still be in place.

I've gone on to consider whether Royal London's subsequent actions reduced their responsibility for the consequences. I've also considered if Mr J's actions have contributed to the cancellation of the policy.

Royal London sent Mr J letters on 30 March 2020 and 21 June 2020, which said Mr J's bank had notified them that the direct debit had been cancelled. Mr J disputes receiving any letters – I am convinced Royal London sent those two, based on what they've said about their post rooms, and the evidence they've provided of letter being issued in the form of screenshots showing this and copies of the letters. However, I accept its possible that Mr J didn't receive them, given the well-known problems with post around that time.

However, even if I were convinced Mr J did receive those letters, I'm not convinced they were clear, fair and not misleading. The 30 March 2020 letter said:

"Please be advised if you no longer require this plan we need written confirmation before we can progress the cancellation... If you do not maintain your regular premium payments, this could result in the loss or reduction of valuable benefits under your plan... Please ignore this letter if within the last few days you have; submitted a new Direct Debit Instruction"

This letter doesn't say the policy will be cancelled – in fact it says it won't be, until written confirmation is received. Nor does it explain that Royal London haven't actually received an instruction regarding this plan, but rather that they've interpreted the phrase 'etc', received with the pension instruction, to stop the direct debit for this policy too. So, I'm not convinced it would be fair to rely on this letter to say Mr J was notified of the consequences of not paying his direct debit.

Royal London then collected a further direct debit payment which left Mr J's bank account on 7 April 2020. So even if I were to agree the letter was clear fair and not-misleading, the subsequent payment of a premium would have naturally meant the last line of the part I've quoted above would apply – to ignore the letter as a payment was received. Overall, I'm not convinced this letter could fairly or reasonably be relied upon in considering what Mr J ought to have been aware of regarding this situation.

Royal London say they next wrote to Mr J on 21 June 2020 and this letter said:

"I regret to advise that the May and June 2020 premiums totalling £60.00 are currently outstanding on your plan. To allow the policy to continue, please arrange for payment to be made by one of the following methods... If you do not maintain your regular premium payments, this could result in the loss or reduction of valuable benefits under your plan"

The consequences of non-payment are contradictory - on one hand it says the policy won't continue, but on the other it says there only *might* be implications on the policy. It doesn't give him a deadline by which to reply, nor does it set out clear consequences of non-compliance. I do accept Mr J ought to have been made aware of some sort of a problem by this letter – but I'm mindful that I consider it to be unclear.

Royal London has told our service that they would have sent a third letter as standard, confirming the policy was cancelled in July 2020, but haven't provided a copy. I can see that in their letter dated 4 July 2022 Royal London said that one wasn't sent to Mr J. So, I'm not convinced he would have received anything after June 2020.

Overall, I'm not convinced that Royal London made reasonable efforts to help alleviate the impact of their mistake in cancelling the direct debit here. Their letters weren't clear, and none tell him the policy was cancelled.

I've also considered Mr J's actions here and I've noted Royal London's comments that he could have mitigated his losses by keeping an eye on his bank statements. Mr J discovered the premiums weren't being collected around two years after they stopped. I'm mindful of the fact that if he looked at the direct debit section of his bank account then he'd have seen the instruction for this policy was still live. So, he'd have had to comb through his statements more thoroughly than simply checking the direct debits, to notice the premiums weren't being taken.

I've also considered how often I'd expect a consumer to check their statements in this thorough way. Having done so, I'm not convinced it's reasonable to say he ought to have checked them *before* the policy was cancelled. I consider it to be reasonable to expect most people to check their statements every few months. With that in mind, I don't think Mr J reasonably ought to have noticed that the premiums hadn't been taken before the policy was cancelled.

I've seen nothing to suggest that Royal London's response to this would have been different if Mr J had gotten in touch with them more quickly after cancellation of the policy. Given they've defended this complaint and not admitted any wrong-doing, I doubt that response would have been different if Mr J had raised this in September 2020, for instance. So, I'm not persuaded that the length of time it took Mr J to notice that the premiums weren't leaving his bank account had any impact on the events that led to his policy being cancelled.

Having carefully considered everything, though Royal London did alert Mr J to some problems with his direct debit, I'm satisfied that their communication was unclear, unfair and misleading. It follows that I find Royal London to be the primary cause of Mr J's policy being cancelled.

I consider that it would be fair and reasonable for Royal London to reinstate the policy on its original terms until the end of its term in June 2025, and Mr J should pay the premiums for the months it's in place going forward. If a successful claim is made between now and the end of its term, then Royal London would be entitled to deduct the premiums Mr J hasn't paid since 2020 from that claim. However, if no claim is made and the policy reaches its end, Royal London would not be entitled to charge Mr J for the missed premiums, as they've not had this policy on risk for the last four years.

This situation has caused Mr J a lot of confusion since he discovered the problem. In particular, he's been worried about not having any cover in place. I'm satisfied that an award for distress and inconvenience is fair here, and I think the £150 recommended by the investigator is sufficient.

Katie Haywood
Ombudsman