

The complaint

Mr M complains about the way that Scottish Friendly Assurance Society Limited has administered his life with critical illness insurance policy.

All references to Scottish Friendly include the actions of its appointed representative.

What happened

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

In February 2022, Mr M took out a life with critical illness insurance policy through a broker. However, a mistake was made and three policies were set-up in error. Scottish Friendly was asked to cancel two of the policies and refund the premiums Mr M had overpaid.

However, due to an error, only one of the policies was cancelled and additional premiums continued to be collected. And while Mr M's premium was due to reduce from April 2023 in line with Scottish Friendly's 'Lifestyle Promise', the premium wasn't amended and the old, higher premium was collected by direct debit in April 2023.

Mr M was very unhappy with Scottish Friendly's administration of his policy and he complained.

Scottish Friendly acknowledged that it hadn't administered Mr M's policy fairly. It issued a final response to Mr M's complaint in September 2023. It accepted that it hadn't cancelled one of Mr M's policies when it should have done and that therefore, it had wrongly taken premiums of £240.71 from his account. It refunded this amount. It also agreed that it had charged Mr M a higher premium in April 2023 than he should have paid. So it also refunded this amount to Mr M. Scottish Friendly told Mr M it had paid him interest on both refund amounts to reflect the time he'd been without the money. And it paid Mr M £250 compensation to reflect the trouble and upset its errors had caused him.

Mr M remained unhappy with the way Scottish Friendly had dealt with things and he asked us to look into his complaint. He said he hadn't received all of the payments Scottish Friendly had told him would be paid. He told us that not only was he out of pocket for the overpaid premiums, he felt he couldn't be confident that Scottish Friendly would properly handle any claims that were made on the policy. He said he'd lost his peace of mind. So he felt Scottish Friendly should refund the premiums he'd paid for life with critical illness cover. He also said that since taking out the policy with Scottish Friendly, he'd developed a new medical condition which wouldn't be covered by another insurer if he were to take out a new policy. He therefore felt that Scottish Friendly should pay the difference between any premium a different underwriter would charge for a new policy and the price that third-party insurer would have charged him in 2022. He told us too that the matter had caused him a great deal of distress and inconvenience.

Our investigator thought Scottish Friendly had already settled Mr M's complaint fairly. She was satisfied that Scottish Friendly had refunded the overpaid premiums to Mr M and she

considered the compensation it had already paid him was fair. She didn't think it would be reasonable to ask Scottish Friendly to refund the premiums Mr M had paid for his policy. And nor did she think it needed to do anything more.

Mr M disagreed and so the complaint was passed to me to decide.

I asked Scottish Friendly to provide me with evidence to show that the refunded premiums and interest payments had been paid to Mr M in September 2023, as its final response said they'd been.

Scottish Friendly said the premium refunds of £240.74 and £72.87 had been paid to the bank account from which Mr M's premiums were debited on 12 September 2023. And it said the £250 compensation had also been paid to that account on 5 October 2023. However, it told us that it hadn't made either of the interest payments to Mr M and it said it would now do so.

I issued a provisional decision on 25 November 2024 which explained the reasons why I didn't think Scottish Friendly had treated Mr M fairly. I said:

'The relevant regulator's principles say that financial businesses must pay due regard to the interests of their customers and treat them fairly. I've taken those principles into account, amongst other relevant considerations, such as regulatory rules and guidance and the available evidence, to decide whether I think Scottish Friendly has treated Mr M fairly.'

Has Scottish Friendly refunded Mr M's overpaid premiums?

Scottish Friendly acknowledges that it has made errors in the administration of Mr M's policy. First, it failed to cancel one of the policies which had been set-up at the outset, meaning that Mr M was paying premiums for a policy which ought to have been cancelled. And it seems that even when Mr M raised this with Scottish Friendly, it didn't initially refund the overpayments as it said it would.

It's clear too that Mr M's monthly premium was due to reduce from April 2023 onwards. However, due to Scottish Friendly's error, the premium wasn't amended and the higher amount was debited from Mr M's account.

In both cases then, it seems that Mr M was left out of pocket for overpaid premiums due to errors on Scottish Friendly's part.

Scottish Friendly says that £240.74 - representing the premiums Mr M paid for the policy which ought to have been cancelled - was paid to his account on 12 September 2023. And it says that it paid Mr M £72.87 on the same day to represent the amount Mr M overpaid in April 2023, after it collected the higher payment in error. Scottish Friendly says that it paid these amounts to the account Mr M's premiums are taken from, although, despite my request, it hasn't provided any screenshots or other evidence to show that these payments were made and when. It would be helpful if Scottish Friendly could please provide me with such evidence in response to my provisional decision.

What is clear is that in September 2023, Scottish Friendly told Mr M that it would also be paying him interest on both of the above amounts and that the money would be in his account within three to five working days. However, almost 14 months later, Scottish Friendly still hadn't paid either of those interest awards. So it seems to me that Mr M has been unreasonably deprived of the total interest payment he was due for over a year after he was told it would be paid. In my view, it would be fair for Scottish Friendly to pay interest of

8% simple on the outstanding total interest amount to reflect the period Mr M hasn't been able to make use of the money it owed him.

Should Scottish Friendly refund Mr M's premiums?

I appreciate that Mr M hasn't received the service he expected from Scottish Friendly and that his policy hasn't been administered as it should have been. I don't doubt that this has undermined Mr M's faith in Scottish Friendly and it's clear he has concerns about whether or not a claim would be paid.

However, I don't think I could fairly or reasonably direct Scottish Friendly to refund the premiums for the cover Mr M has held. That's because I'm satisfied that it has been covering the risk of a life or critical illness claim being made while the policy's been in force. I haven't seen enough persuasive evidence to show that Scottish Friendly wouldn't have appropriately considered any claim Mr M made on the policy. And I think it's fair for Scottish Friendly to retain the premiums Mr M's paid while it's been insuring him.

And I also don't think I could fairly tell Scottish Friendly to pay either for Mr M to take out new cover or to pay for any difference in the cost of a new policy with a new insurer. As I've said, I appreciate why Mr M might want to obtain alternative cover. But I don't think it would be reasonable for me to ask Scottish Friendly to make any contribution towards this.

Has Scottish Friendly paid fair compensation?

As I've set out above, Scottish Friendly acknowledges that it didn't administer Mr M's policy as well as it should have done and it's made clear mistakes. I think it should have cancelled Mr M's second policy far sooner than it did and ensured he was refunded any overpaid premiums promptly. I don't think Mr M should have needed to chase things up with Scottish Friendly. I also find it ought to have ensured that it was charging Mr M the correct premium in April 2023, rather than charging a higher price than it had said it would. In my view, this caused Mr M unnecessary trouble and upset and put him to time and inconvenience in getting things resolved.

And I'm mindful too that Mr M was put to further trouble and upset as a result of Scottish Friendly's failure to pay the interest amounts it said it would. This has caused a further unreasonable delay in this matter being fairly settled. So I currently think it would be fair and reasonable to require Scottish Friendly to pay Mr M further compensation of £100 – meaning a total compensation award of £350 - to reflect the likely material trouble and upset I think it's overall errors have caused him. I do appreciate Mr M has developed a health condition since he took out the policy and that this must be upsetting for him. But I've seen no persuasive evidence to show that Scottish Friendly's actions are responsible for any deterioration in Mr M's health. And therefore, I don't think I could ask Scottish Friendly to pay any further compensation on that basis.

Putting things right

I currently intend to tell Scottish Friendly to:

- *Pay interest at an annual rate of 8% simple on the total interest amount it told Mr M would be paid in September 2023, from 12 September 2023 (the date the premiums were refunded) until the date the refund amount is paid; and*
- *Pay Mr M an additional £100 compensation.'*

I asked both parties to send me any further evidence or comments they wanted me to

consider.

Scottish Friendly agreed to pay Mr M a further £100 compensation; it said it had now paid the outstanding interest amounts and it provided proof of the refunded premiums it had paid in September 2023.

Mr M didn't accept my provisional findings and I've summarised his responses to my provisional finding:

- Scottish Friendly's errors weren't isolated incidents, but a series of repeated failures of policy administration – and it had repeatedly claimed to have rectified its mistakes when it hadn't. It had also led our investigator to believe that all payments had been made;
- Scottish Friendly markets itself as an ethical and member-focused service and this had been a key factor in Mr M choosing to take out cover with it;
- As a direct result of Scottish Friendly's incompetence, Mr M will be moving his cover to a different provider, as he has little confidence that it would pay out appropriately;
- Given Mr M's age and the development of a new health condition, his new cover will inevitably cost more than if he'd taken out a policy through an alternative insurer three years ago. So he considered Scottish Friendly had caused him a direct financial loss;
- Therefore he felt the compensation I'd proposed was wholly inadequate, as it failed to address the long term impact of Scottish Friendly's mistakes on Mr M; it failed to recognise his distress and anxiety; and it failed to act as a suitable deterrent;
- Instead, Mr M still felt a fair outcome to this complaint would be for Scottish Friendly to pay him a full refund of premiums, restoring him to the position he'd have been in had he not taken out a policy with Scottish Friendly; cover the difference in cost between his current policy and the cost of new cover; and pay a significantly higher amount of compensation of trouble and upset;
- Mr M also felt we should undertake a systematic review of Scottish Friendly's conduct.

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 M, my final decision is the same as my provisional decision and for the same reasons. I'll go on to explore his further points, although I will be focusing on what I believe to be the key issues.

First, I must make our role clear. We're not the industry regulator and we have no power to fine or punish businesses. Nor are we able to carry out systematic reviews of the financial businesses we cover. Our role is to consider complaints brought by individual consumers to decide, based on the specific circumstances of each complaint, whether we think a financial business has done something wrong which has caused a consumer to lose out or suffer material distress and inconvenience. And, if we think it has, we'll decide what we think the business needs to do to put things right.

I appreciate why Mr M has lost faith in Scottish Friendly's administration of his policy. It has made repeated errors and I understand that Mr M has been put to time and trouble in trying to sort things out. But it remains the case that Scottish Friendly has been providing cover under the policy and I've seen no persuasive evidence that the policy wouldn't have paid out in the event of a covered claim. And ultimately, it's Mr M's choice to take out alternative cover with a new insurer at a potentially higher price. So I still don't think it would be fair or

reasonable for me to direct Scottish Friendly to refund the premiums Mr M has paid or to pay any difference in price between Mr M's current premiums and the increased price of new cover.

It's clear Mr M considers the compensation I proposed to award to be inadequate. But, as I've said, our awards aren't intended to be punitive nor to act as a deterrent. They're intended to reflect the material distress and inconvenience we think a consumer has been caused by a financial business' actions or inactions. And in the specific circumstances of this complaint, I remain satisfied that an additional award of £100 (meaning Scottish Friendly will have paid Mr M total compensation of £350 for its errors) is fair, reasonable and proportionate. I'd add that while Mr M considers Scottish Friendly deliberately tried to mislead our investigator, I've seen no persuasive evidence to indicate this was the case. Instead, it seems that it simply failed to notice that the interest amounts hadn't been paid.

Mr M has raised concerns about Scottish Friendly's marketing and the impact he says this had on his choice to take out the policy. It seems to me that this is a separate issue to Scottish Friendly's administrative errors and relates more to the way the policy was sold. If Mr M feels he was provided with misleading or unclear information at the point of policy sale, he'll need to make a new complaint to his broker about that issue alone.

Putting things right

Overall, I remain satisfied that my provisional award is fair and reasonable in the circumstances of this case. So I now direct Scottish Friendly to:

- Pay interest at an annual rate of 8% simple on the total interest amount it told Mr M would be paid in September 2023, from 12 September 2023 (the date the premiums were refunded) until the date the refund amount is paid (Scottish Friendly says this has now been done, but it would be helpful if it could send evidence of these payments to Mr M);* and
- Pay Mr M an additional £100 compensation.

* If Scottish Friendly considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr M how much it's taken off. It should also give Mr M a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons I've given above and in my provisional decision, my final decision is that I partly uphold this complaint and I direct Scottish Friendly Assurance Society Limited to put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 10 January 2025.

Lisa Barham
Ombudsman