

## **The complaint**

Mrs T's complaint is about the proceeds of a life assurance policy she and her ex-husband had with Scottish Friendly Assurance Society Limited being incorrectly paid to a mortgage lender.

The policy was taken out with Manulife in 1992 and subsequently transferred to Canada Life and ultimately, in 2018, Scottish Friendly. As Scottish Friendly is responsible for the policy, I will refer to it throughout, even where activities pre-date its ownership of the policy.

## **What happened**

In 1992 Mrs T and her then husband, Mr T, took out a joint life assurance policy with Scottish Friendly for £26,837. It was assigned to their joint mortgage with Lender N in 1996. This meant that while the assignment remained in place, it could not be surrendered or a claim made without the involvement of Lender N. Any claim proceeds would be paid to Lender N, unless it either gave alternative instructions or released its interest in the policy.

Mrs T has told us the joint mortgage was repaid in 2002. At this point Lender N's assignment should have been released and it should have informed Scottish Friendly that it had done so. Scottish Friendly has no record of receiving such a notification and so as far as it was concerned, the assignment remained active.

Mr T died in 2021 and the benefit of the policy became payable. Mrs T contacted Scottish Friendly about claiming the policy proceeds toward the end of 2021. She was told that the policy was assigned to Lender N and before the proceeds could be paid to her, Lender N would need to confirm the policy was no longer assigned to it.

On 25 May 2022 Scottish Friendly received a claim form, via Mr T's estate, that had been completed by Lender N. As Scottish Friendly's records showed that the policy was still assigned to Lender N, the life proceeds were paid out to Lender N in line with its instructions. The money was paid off a mortgage that Mrs T was not a party to.

Around a month later Scottish Friendly received a letter from Lender N's mortgage centre, dated 17 June 2022, telling it that it no longer had an interest in the policy – that the assignment should be released. However, by this time, the policy proceeds had already been claimed by Lender N and paid to it.

Mrs T tried to claim the proceeds of the policy in the middle of June 2022. Scottish Friendly told her that the death benefit of the policy had been paid out. She complained to both Scottish Friendly and Lender N, as she considered the money should have been paid to her as the surviving policyholder.

Scottish Friendly responded to the complaint in a letter of 7 August 2024. It didn't uphold the complaint as it was satisfied that it had paid out the proceeds in line with the assignment, as it was required to.

Mrs T was not satisfied with the response and asked this Service to consider the complaint. One of our Investigators considered the complaint and recommended that it be upheld. He concluded that Scottish Friendly should not have paid the policy proceeds out to Lender N without Mrs T's consent, as it had said was necessary. As agreement could not be reached, it was decided the complaint would be referred to an Ombudsman for consideration.

Mrs T accepted the Investigator's conclusions, but Scottish Friendly did not. It said that the claim had been correctly paid out based on the assignment it had on its file at the time the claim form from Lender N was received. As this complaint was being referred to an Ombudsman, Mrs T asked that her complaint about Lender N was also referred to an Ombudsman, so that the whole situation could be considered.

I issued a provisional decision on 12 December 2024, in which I set out my conclusions and reasons for reaching them. Below is an excerpt.

*'Both of Mrs T's complaints have been referred to me so I would like to assure the parties that I have considered all of the evidence that applies regarding the circumstances and the actions of both NatWest and the life assurance company.'*

*This complaint turns on the issue of the policy assignment. Given the nature of the assignment given to Lender N in 1996, when the mortgage specified in the assignment was repaid, Lender N's interest in the policy ceased. It should have informed Scottish Friendly of this fact.*

*It is not clear why Scottish Friendly was not aware in 2021 that Lender N's interest in the policy had ceased around 2002. It may be that Lender N didn't do what it should have done. Alternatively, it is possible that Lender N did, but its letter was not received by Scottish Friendly, or Scottish Friendly did not record the reassignment. At such a distance in time, it is not possible to know why the policy was not reassigned and the problems Mrs T encountered happened. However, I don't think why the assignment was not removed from the policy matters to the outcome of this and the case against Lender N.*

*Scottish Friendly's records showed that the policy was assigned to Lender N. In that situation, it could not pay the policy benefit to Mrs T unless Lender N confirmed that it no longer had an interest in the policy. It did do that, but before it happened, Scottish Friendly received a claim form (forwarded by the executor of Mr T's estate) that was signed and stamped by Lender N.*

*I note Mrs T's comment that the mortgage account number on the claim form was different from that on the deed of assignment. That was the case, but it has not been unusual for mortgage account numbers to be changed when systems are updated or mortgages are transferred between lenders. So I don't think Scottish Friendly should have refused to pay the policy proceeds to the lender to which the policy was assigned, when it claimed them. The key fact here is that Lender N should not have claimed the money, as it knew that the policy was no longer assigned to it.*

*It was not until after Scottish Friendly had paid out the money that it was made aware that Lender N had no interest in the policy. It was too late for Scottish Friendly to do anything about the situation at that point. So overall, I am satisfied that Scottish Friendly didn't make a mistake in paying out the death benefit when it did, based on the information it had at that time.'*

Both parties accepted my provisional decision.

### **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 have reviewed the file again in its entirety and I have revisited my provisional decision. Having done so, and in light of the parties accepting my conclusions, I remain satisfied this complaint should not be upheld.

### **My final decision**

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mrs T to accept or reject my decision before 7 February 2025.

Derry Baxter  
**Ombudsman**