DRN-5382461

The complaint

Mr and Mrs L as Trustees of the L Trust (trustees) complained that The Prudential Assurance Company Limited didn't settle a claim correctly on a life and critical illness policy. The trustees also complained about being asked to refund part of the claim payment they received.

What happened

A life and critical illness policy was taken out with Prudential in November 2015. Every year on the anniversary of the policy, the sum assured increased due to indexation. In October 2023 the life assured was admitted to hospital. As a result, the trustees raised a claim with Prudential.

Prudential investigated the claim and agreed that a critical illness definition on the policy had been met. Prudential made payment to the trustees in February 2024. Prudential paid out the sum assured based on the policy value in October 2023. The trustees argued that as the payment was paid after the annual indexation, a higher amount was due. Prudential also informed the trustees that they'd calculated the sum assured incorrectly and a refund would be required. The trustees raised a complaint.

Prudential upheld the complaint. They admitted they'd made an error and confirmed they had paid out the correct amount on the policy and so the trustees didn't need to refund anything. They offered the trustees £250 compensation for the distress and inconvenience caused. However, Prudential didn't agree they owed more under the policy. The trustees didn't agree and so brought the complaint to this service.

Our investigator upheld the complaint. They thought Prudential should pay the trustees more. This was because Prudential received the medical information to assess the claim after the indexation occurred and based on the terms and conditions. Our investigator did think the compensation previously offered was fair in the circumstances. Prudential appealed. They didn't agree that the terms and conditions supported a higher payment. As no agreement could be reached, the complaint has been passed to me to make a final decision.

Because I disagreed with our investigator's view, I issued a provisional decision in this case. This allowed both Prudential and the trustees a chance to provide further information or evidence and/or to comment on my thinking before I made my final decision.

What I provisionally decided – and why

I previously issued a provisional decision on this complaint as my findings were different from that of our investigator. In my provisional decision, I said:

"*I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.*

Based on what I've seen so far, I don't intend to uphold this complaint. I know this will come

as a disappointment to the trustees, but I've explained my reasons why below.

At the outset I acknowledge that I've summarised their complaint in far less detail than the trustees have, and in my own words. I'm not going to respond to every single point made. No discourtesy is intended by this. Instead, I've focussed on what I think are the key issues here. The rules that govern the Financial Ombudsman Service allow me to do this as it's an informal dispute resolution service. If there's something I've not mentioned, it isn't because I've overlooked it. I haven't. I'm satisfied I don't need to comment on every individual point to be able to reach an outcome in line with my statutory remit.

The trustees have directed us to part of the terms and conditions to support their complaint. This was as follows:

"Benefits under Serious Illness Cover will be due when we confirm that the claim is valid – irrespective of when the claim is made."

I've considered the above term, but I don't agree it supports the trustees' complaint. Whilst I agree the term confirms when a payment is due to be paid, this doesn't mean it's the sum assured at the time the claim is due to be paid that is payable. Prudential are required to validate a claim to ensure the policy terms and conditions have been met before any payment is due. Due to the nature of claim validation and usually the need for medical records, this can take some time. The benefit paid on a critical illness policy (or serious illness policy), will link to the date the condition being claimed for occurred, or the medical evidence indicates it occurred. In this case, this was prior to the indexation in October 2023. So, based on what I've seen, I don't think Prudential have been unfair or unreasonable in how much they've paid out. If a policy did payout based on when medical records were received, or a claim had been validated, it could lead to claims being deliberately delayed. Likewise, it could also unfairly lead to potential detriment to consumers with a decreasing sum assured policy due to the nature of claim validation with this type of policy.

I've also considered the compensation offered by Prudential. It's not in dispute that Prudential made an error in asking for some of the funds to be returned. There were 11 days between providing the incorrect information and correcting it. I can see how this caused distress and inconvenience to the trustees. But in-line with out website guidance, I think this is fair and reasonable in the circumstances."

Therefore, I wasn't minded to direct Prudential to anything further as I thought the compensation they had already offered was reasonable.

Responses to my provisional decision

Prudential accepted my provisional decision.

The trustees confirmed they didn't agree with my provisional decision. They maintained the claim should be paid at the indexed rate as that's how they interpret the policy terms and conditions.

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've thought carefully about the responses to my provisional decision. Having done so, while I appreciate it will come as a disappointment to the trustees, my conclusions remain the same. I'll explain why.

Having read the trustees further submissions, I don't think they've provided any new information compared to their original submission. As a result, I don't think anything has been provided which could lead me to depart from my provisional decision.

Whilst I appreciate the trustees interpret the terms that the policy should pay out the value at the point that the claim has been validated, this isn't how these policies work. As I set out in my provisional decision, with the nature of claims on these policies it often takes some time to validate a claim. The sum assured will be from when the policy terms were met, not when the claim has been validated. The term above the trustees have referred to sets out when the claim will be paid, i.e. when payment is due. It doesn't state that the amount paid will be based on this date.

My final decision

For the reasons I've given above, my final decision is that I don't uphold this complaint. I don't require The Prudential Assurance Company Limited to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L and Mr L as Trustees of the L Trust to accept or reject my decision before 11 April 2025.

Anthony Mullins
Ombudsman