

The complaint

Mr M complains that Guardian Financial Services Limited, an appointed representative of Scottish Friendly Assurance Society Limited, failed to properly carry out the annual indexation on his family income benefit policy.

What happened

In 2019 Mr M took out an index-linked family income benefit policy via a third-party adviser, with an initial premium of £85.81 per month and a term of 22 years, which would pay a monthly benefit of £5,000. Though Guardian is the company Mr M has been dealing with, as they are an appointed representative, I will just be referring to Scottish Friendly.

In 2021 Mr M and his financial adviser noted that the increase to the premium and monthly benefit had not occurred for either 2020 or 2021 and raised this with Scottish Friendly. It was found that Scottish Friendly didn't offer index-linked family protection policies and had given a quote for this one due to a system error. However, as Mr M and his adviser were struggling to find replacement cover, Scottish Friendly agreed to put bespoke terms in place and index-link his policy going forward. They said he didn't need to pay the additional cost of the premiums since 2020, and paid him £250 as a gesture of goodwill, which Mr M accepted.

In 2024 Mr M raised a new complaint, as the 2023 indexation hadn't occurred, and it was coming up to the 2024 anniversary. Scottish Friendly explained the indexation process is manual and apologised for missing it. They said that as he's not had to pay the increased premiums for two years, they felt Mr M had benefitted financially and so didn't offer a compensation payment. They noted that if a claim had occurred, they'd have honoured the higher sum assured that should have been in place.

However, they said that going forward, they expect Mr M to proactively contact them to ensure indexation takes place. They also said that if indexation was missed in future, in the event of a claim they would only pay the sum assured based on the premiums being paid. If the same happens in future, they explained they would expect Mr M to back-pay any missed increases of premiums.

Mr M was unhappy with these conditions, as he felt it was Scottish Friendly's responsibility to operate the policy as per the terms, not his. He wanted them to guarantee that if problems occurred again, they would follow the same redress method as they did both in 2021 and in the current complaint, rather than putting all the responsibility on him. Scottish Friendly refused to change their decision so he brought the complaint to our service. An investigator at our service upheld the complaint and found that:

- It was fair to waive the increase in premiums for the missed indexation events, so Mr M shouldn't have to back-pay the additional amounts.
- It was Scottish Friendly's responsibility to ensure the indexation took place, so it wouldn't be fair for Mr M to have to remind them every year.
- Scottish Friendly should put clear terms in place setting out the steps they would take to operate the indexation of Mr M's policy.

- Waiving of back premiums addresses financial loss incurred as a result of the error – it is not the same as making a compensation payment for distress and inconvenience caused. For the latter, the investigator recommended an award of £150.
- If Scottish Friendly fail to carry out the indexation in future, then Mr M would be able to make a complaint about it at that point. But she wouldn't be able to tell Scottish Friendly what redress to apply to a future complaint, so she couldn't ask them to guarantee a redress method.

Scottish Friendly agreed with the investigator and they set out the additional terms describing the steps they would take at future indexation events and paid Mr M the £150. Mr M was happy with the additional terms, and they were sent to him in writing. However, he wasn't happy with the compensation – he said:

- The complaint in 2021 was settled with an amount of £250, the equivalent of around three months premiums. Using the same basis, the payment would be around £400.
- The repetition of the error should lead to higher compensation, not lower.
- Though Scottish Friendly had responded quickly to his complaint, they had attempted to impose unfair restrictions on the way the policy would operate going forward, which was distressing.
- He feels our service ought to put in place instructions as to how any future problems should be handled.

The investigator wasn't persuaded to change her mind, so the complaint has been passed to me for a final 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.

Having done so, I've reached the same ultimate conclusion as the investigator, for broadly the same reasons. While all parties appear to agree on this point, for completeness, I also agree that it's Scottish Friendly's responsibility to ensure the indexation takes place and is communicated to Mr M. I'm satisfied the steps they've taken of waiving the need for Mr M to repay the back-premiums and putting in place the new terms are fair. So, the focus of my decision is on compensation.

To start I want to explain that our approach to putting things right is particular to each set of circumstances that lead to a complaint and the impact of those circumstances. When we feel compensation for distress and inconvenience should be paid, we consider the whole situation, including areas like how much effort the customer had to go to, to have things resolved. However, we don't generally award compensation automatically simply because someone feels they've had to raise a complaint, or because that complaint has been brought to our service.

While I'm not commenting on the events that took place in 2021 in this decision, that situation does provide a helpful comparison when considering the amount of effort and worry the events in 2024 caused. In 2021, it would have been very shocking for Mr M to discover that the policy he'd taken out in good faith wasn't one that Scottish Friendly offered. He also had to go to the effort of attempting to find alternative cover, before an agreement was reached with Scottish Friendly.

Whereas in 2024, while it was no doubt disappointing to find Scottish Friendly had made an error, the shock element to it wasn't as bad – nor did Mr M have to take anywhere near the

number of steps to have the indexation issue resolved. We don't calculate compensation for this by reference to the premiums, or an amount per hour. The investigator has provided Mr M with a link to our website that sets out the various types of awards we apply to different sets of circumstances.

I think it's worth noting that when they replied to his complaint, Scottish Friendly did take appropriate steps to ensure the policy was in the position it would have been in, but for their error in missing the indexation. The remaining points that Mr M disputed were about what would happen in future, which were things he only found out about in Scottish Friendly's reply to his complaint.

I appreciate these new points would have caused Mr M concern and it was undoubtedly disappointing to Mr M that they attempted to put the responsibility on him going forward. However Scottish Friendly had resolved the main part of the complaint that was made, by putting the policy right, in the way Mr M was hoping it would be. I do consider this to have caused him less inconvenience than his previous experience in 2021.

The investigator is correct that we can't mandate how future issues should be resolved. As I've explained, each set of circumstances would have its own impact which would need to be considered. There may be changes in the regulatory and wider financial environment that have an impact on how future complaints are handled, which we can't predict in advance. I also can't say how much compensation for distress and inconvenience I'd expect Scottish Friendly to pay if a similar error happens in future.

Mr M's worry about future problems isn't unfounded, given this is the second time the indexation has been missed. However, it may help if I explain that firms are expected to learn from the outcomes they receive from our service. The approach they've taken – to waive the need for Mr M to pay the increased back premiums – is one that I consider fair and reasonable and I'll explain further.

It's not an unusual method of redress that we employ in situations similar to this and is generally put in place for two main reasons. Firstly, the firm wasn't actually on risk for the higher amount of cover. Secondly a lot of customers don't have access to a lump sum to cover the missed premiums. While the customer would have afforded the increased premiums when spread out on a monthly basis, instead the amounts were absorbed by other spending. Finding a lump sum isn't normally feasible.

In the event of complaint about a claim, when the firm has failed in its ability to properly administer the policy causing the indexation to not occur, it's not unusual for us to say that the sum assured payable should be that which would have been in place, but for the failure in administration.

We do also need to take into account steps that a customer reasonably could take in mitigation, once they ought reasonably to have been aware of a problem – and that will be personal to each circumstance. There may also be factors that are unique to a complaint that mean we depart from the above.

I hope that helps Mr M have some reassurance about the steps our service expects firms to take – at least currently. I'm afraid I cannot provide assurances against future changes in approach, from our service, or the wider regulatory landscape – or predict what approach we might take to a particular set of circumstances.

Overall, I'm satisfied that £150 is a fair amount for the trouble that Mr M had to go to in order for the missed indexation to be resolved, and for the distress Scottish Friendly caused in saying it would be his responsibility to notify them when indexation was required in future.

My final decision

I uphold this complaint. As Scottish Friendly Assurance Society Limited has already put the policy right, paid the £150 that I am satisfied is fair and has provided the additional terms about indexation in writing to Mr M, there's nothing more they need to do to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 21 April 2025.

Katie Haywood
Ombudsman