DRN-5507728

The complaint

Mr S complains that Scottish Friendly Assurance Society Limited (Scottish Friendly) caused delays in the setting up of his annuity resulting in his income being underpaid by around £2,463.78. He wants the arrears paid and compensation for the inconvenience.

What happened

Mr S originally had a pension plan with Canada Life which offered a guaranteed annuity rate (GAR). In 2019 Scottish Friendly took over the administration of the policy. The plans retirement age was his 75th birthday on 31 July 2023, and in advance of this he contacted Scottish Friendly in September 2022. As part of its four-stage retirement process, it issued a Retirement Options Pack on 29 March 2023, which confirmed a guaranteed annuity of £13,636.40 per annum was available. Mr S replied on 17 April 2023, confirming he wanted this annuity and asked for future communication to be by email. On 28 April 2023 Scottish Friendly emailed further documents around Pensionwise, which Mr S returned on 17 May 2023. It says it then posted documents on 26 June 2023, which Mr S says he didn't receive. He called Scottish Friendly on 3 August 2023, and it emailed the missing correspondence which Mr S completed and returned on 7 August 2023. Further documents were emailed on 15 August 2023 and returned the next day. On 23 August 2023 it asked for various verification of identity details, which Mr S provided on 16 September 2023.

Scottish Friendly then sent an annuity illustration from Canada Life, showing the annual income of £13,635.64, payable monthly in advance from 31 July 2023. The illustration showed the cost of this annuity was £155,442.21, which was much higher than the current plan value quoted of around £100,000. Mr S signed the application and returned it on 28 September 2023. Scottish Friendly emailed the annuity documents, Mr S's, proof of identity, a valuation of the policy and a calculation of the GAR to Canada Life. It said it would pay £155,442.21 to Canada Life's bank account by 5 October 2023 and did so.

Unfortunately, there was a long delay in Canada Life setting up the annuity, which Mr S has complained separately about. He wrote to Canada Life on 2 January 2024, setting out the background and that the annuity was to start on 31 July 2023. Canada Life replied on 8 January 2024 saying it had everything needed to set the annuity up. But that the start date would only be backdated to 5 October 2023, when it received the funds, unless Mr S had some other paperwork from Scottish Friendly confirming the annuity was to be backdated to July 2023. Mr S emailed Scottish Friendly the next day asking for its assistance, and said he was then owed over £7,000. On 16 January 2024 Scottish Friendly emailed Canada Life. It said the annuity illustration it had emailed on 28 September 2023 confirmed the annuity start date was to be 31 July 2023. And it enclosed a screenshot from Canada Life's own online portal of the illustration, which it said was the pre-agreed process between them.

In March 2024 Canada Life upheld Mr S's complaint in part and offered him £500 in compensation for the delays and poor communication. But it said it could only backdate the annuity to 5 October 2023. Mr S emailed Scottish Friendly on 2 June 2024 saying Canada Life still wouldn't backdate the annuity to 31 July 2023. He also asked about the relationship between Canada Life and Scottish Friendly. It didn't reply until 27 September 2024. It said it was responsible for the GAR under the policy but had an arrangement with Canada Life to provide an annuity on the GAR terms. On 30 September 2024 it emailed Canada Life referring to the email of 16 January 2024 and confirmed the annuity was to be backdated to 31 July 2023. It emailed Mr S the same day confirming this and apologised for the delay in explaining the relationship between itself and Canada Life and offered Mr S £125 in compensation.

On 14 October 2024 Canada Life emailed Scottish Friendly confirming it could backdate the annuity, and it provided a revised illustration showing a lower purchase price. It said it would need to return *“excess funds”* and asked for bank details to do this. Canada Life also said it had another similar case where Scottish Friendly hadn’t confirmed the required start date and asked for this information to now be included in the covering email. Canada Life sent a chaser on 22 October 2024, but it isn’t clear whether Scottish Friendly replied.

Mr S referred both his complaints to our service and our investigator looked into them. He said the complaint about Scottish Friendly should be upheld in part.

Separately Canada Life arranged for the annuity to be rewritten and the income arrears to be paid. Our investigator said the £500 Canada Life had already paid for the delays was fair in the circumstances. Mr S agreed with this and that complaint was closed.

Our investigator said Scottish Friendly had generally issued documents relating to the retirement process to Mr S promptly. But it could have made it clearer when sending the application documents to Canada Life that the annuity was to be backdated to 31 July 2023 rather than relying on this to be picked up from the date on the illustration. He said whilst the onus was on the receiving provider (Canada Life) to be proactive and to query discrepancies, Mr S had asked Scottish Friendly for assistance on 9 January 2024. And whilst it had emailed Canada Life on 16 January 2024, it hadn’t followed up on this when it didn’t receive a reply, which was poor practice. And when Mr S contacted it again on 2 June 2024, there was a delay before Scottish Friendly contacted Canada Life on 30 September 2024. And it then failed to respond to Canada Life’s request on 14 October 2024 for bank details to make a refund to, despite a reminder being sent on 22 October 2024.

Our investigator said Scottish Friendly hadn’t been clear about the start date for the annuity or proactive enough in helping to resolve the problem as soon as possible. He said the £125 compensation Scottish Friendly had offered for the inconvenience Mr S had been caused wasn’t adequate in the circumstances and should be increased to £525 in total.

Mr S accepted our investigator’s view of the complaint, but Scottish Friendly disagreed. It said as our investigator had noted the annuity illustration clearly stated the start date was 31 July 2023. And once it had provided the necessary applications and paid the funds to buy the annuity to Canada Life, it’s involvement *“effectively”* ended. It said it had contacted Canada Life in January 2024 following Mr S’s request. And it said whilst it had *“missed”* the email about making a refund, Canada Life already had bank details for this purpose. It said since February 2025 it had been in regular contact with Canada Life to try to resolve the issue. It also said it had a specific agreement with Canada Life that it, not Scottish Friendly, was responsible for resolving complaints relating to annuities, *“including but not limited to any benefits, terms or service processes relating thereto”.* It said the £125 compensation offered to Mr S was about an earlier, minor error that had no impact on the annuity process, and it hadn’t considered events subsequently.

As Scottish Friendly doesn’t agree, it has come to me to decide.

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'm upholding the complaint.

Whilst Scottish Friendly has said it hasn't considered issues post the annuity application it has responded to our investigators view. And it hasn't disputed the details set out, whilst rejecting any responsibility for the subsequent delays and problems. So, I think it's reasonable that I issue this final decision now, which considers the overall position.

I'm not considering the complaint about Canada Life here but need to refer to its involvement as the confusion and clearly evidenced inefficiency between it and Scottish Life has resulted in significant delay in Mr S receiving the income he was entitled to, and considerable inconvenience for him. Hopefully Canada Life has now paid the arrears back to 31 July 2023, and I'd expect interest to have been added for the late payment.

Scottish Friendly and Canada Life have an agreement that Canada Life will provide the guaranteed annuity income originally offered by the Canada Life policies Scottish Friendly took over in 2019. Some confusion might have been avoided had Scottish Friendly better explained this relationship and Canada Life's role at an early stage of the process. Without that, it is entirely understandable that Mr S raised various queries such as why the purchase price shown on the annuity illustration didn't match his plan fund value as quoted by Scottish Friendly.

I don't have specific details of the agreement for Scottish Friendly to take over the Canada Life policies, but it seems reasonable to me that it would be Scottish Friendly that remained responsible for meeting the terms of the GAR available under Mr S's plan. It might make an agreement for a third party to provide that annuity, but until that annuity was correctly in place, I think Scottish Friendly's involvement wasn't at an end. And I don't think it did as much as it should have done to ensure satisfactory completion of the process.

I also don't agree that the error Scottish Friendly accepts it made in posting documents on 26 June 2023, rather than emailing them to Mr S, as he'd requested, didn't delay the annuity process. When these were emailed in August 2023 (already past the retirement date) Mr S completed and returned them in four days, so this caused more than a month's delay and the outcome might have been different but for that.

Whatever the cause of the initial delays in completing the pre-retirement paperwork, Mr S was entitled to an income payable in advance from 31 July 2023. The significant administration problems Canada Life suffered in that period, due to a very large increase in new business volumes on the back of rising annuity rates, are well known to our service. I think they should have been well known to Scottish Friendly too, given there was a specific agreement in place for Canada Life to provide the guaranteed annuity terms, by arranging a matching annuity with Scottish Friendly funding the difference between the actual policy value and the true cost of the annuity. But even if Scottish Friendly wasn't initially aware of the problems at Canada Life, it was after Mr S emailed it for assistance on 9 January 2024.

Whilst I can only consider Mr S's complaint here, the correspondence between Canada Life and Scottish Friendly suggests there were glitches in the process around providing the GAR, and both businesses carry responsibility for the consequences of that. Whilst Scottish Friendly has said the agreement with Canada Life was that the annuity start date was to be the date shown on the illustration, it's generally the case that an annuity is set up from the date the new provider receives the money, rather than any earlier date. The other documents Scottish Friendly emailed to Canada Life should have alerted it to a different scenario here, but I think this distinction should have been properly flagged and confirmation that this was understood, requested from Canada Life.

And, once Mr S informed it of the problem, I think Scottish Friendly should have been much more proactive than it was in helping to resolve it. It should have followed up when Canada Life didn't reply to its email of 16 January 2024 and subsequently, rather than leaving Mr S to try to sort things out himself. Scottish Friendly's agreement with Canada Life might place full responsibility for complaints on Canada Life, but I still think Scottish Friendly had a responsibility to treat Mr S fairly, and it didn't.

Given the problems at Canada Life, further intervention might not have meant Mr S's annuity was in place any sooner than it was. But the additional uncertainty, inconvenience and effort on Mr S's part around the correct start date of the policy should and could have been avoided. And the problem persisted for an excessively long period, which is a factor in the inconvenience suffered. So, I think it is fair that Mr S be further compensated for the distress and inconvenience he's been caused.

Putting things right

I think Mr S has been caused significant inconvenience over a long period of time.

Scottish Friendly has already offered £125 compensation for its delayed response. But considering the overall position, I think that it is fair that this be increased to £525 in total. Which I think is in keeping with the level of compensation our service would award in similar circumstances.

My final decision

My final decision is that I uphold this complaint against Scottish Friendly Assurance Society Limited.

I direct Scottish Friendly Assurance Society Limited to pay Mr S a total of £525 in compensation for the distress and inconvenience he's been caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 18 September 2025.

Nigel Bracken
Ombudsman