

The complaint

Miss P has complained that St. Andrew's Insurance Plc underpaid claims she made on a mortgage payment protection insurance (MPPI) policy and that it will not undertake to pay any future claims on the original terms.

What happened

Miss P took out the MPPI at the same time as arranging her mortgage in 2004. When she later made two unemployment claims on the policy, St. Andrew's paid out an amount equalling 125% of her mortgage payments. Miss P later realised that, due to the particular lender she was with, the policy should have paid out 133% of her monthly mortgage payments.

Upon making a complaint, St. Andrew's upheld it. In its complaint final response letter of 27 February 2024, it set out its proposed remedy, which was to pay the shortfall on both claims (being the difference between the 125% benefit that it did pay and the 133% benefit that it should have paid) plus additional interest at 8% (net of tax). It also offered £75 for poor service and a further £350 for the delay in paying the claim in full.

Our investigator thought that St. Andrew's had acted fairly and reasonably in its response to the complaint. Miss P disagrees and so the complaint has been passed to me for a 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.

The complaint involves the actions of the claim administrators, acting on behalf of St. Andrews. To be clear, when referring to St. Andrew's in this decision I am also referring to any other entities acting on its behalf.

Miss P has made regular reference to her lender. To be clear, whilst the MPPI is branded under her lender's name, St. Andrew's is, and always has been, the underwriter of the policy. The terms have been put into the contract by the underwriter and can only be exercised by the underwriter. That gets to the crux of what I am looking at here about what the underwriter can and can't do and whether it has acted fairly or not.

During the period of Miss P's claims, the standard maximum level of cover under the policy was 125% of the mortgage repayments. However, if someone's mortgage was with one of two particular lenders, then the benefit was set at 133%.

There's no dispute about that. As I've already mentioned, St. Andrew's has accepted that it made a mistake when initially only paying out 125% during the claims. As I understand it, Miss P doesn't dispute St. Andrew's calculations in making up the shortfall of payment.

I appreciate she was unhappy that it deducted basic rate tax from the 8% interest it added to the shortfall figure, thereby reducing the amount that she actually received. However, that is

a standard deduction which is in line with our approach to redress. St. Andrew's has paid this to HMRC, so Miss P should contact HMRC if she believes she is entitled to a refund, which would likely be the case if she was a non-taxpayer.

In respect of the shortfall, she believes St. Andrew's underpaid her as a deliberate act. It's important to make clear that we are not the industry regulator. We have no powers to regulate the financial businesses we cover, nor to direct them to change their processes or procedures. Our role is to investigate individual complaints made by consumers to decide whether, in the specific circumstances of that complaint, a financial business has done something wrong which needs to be put right.

In this case, St. Andrew's has explained what happened and attributed it to human error. Whilst I appreciate Miss P's point of view, I find its explanation plausible, and I haven't seen any evidence that would lead me to conclude that it was a deliberate act or that there are wider issues beyond her claims.

Looking at the poor service, including the conduct of the adviser that spoke to Miss P on 5 February 2024, overall, I'm satisfied that £75 is a reasonable and proportionate amount for any distress and inconvenience caused.

Although Miss P says she received no compensation when St. Andrew's made the correction to backdate payments, that is not the case. The 8% interest applied to the shortfall amounts was to compensate her for not paying the full amount at the time of the claims. She was then offered an additional £350 for the delay in response to her complaint. Miss P said she had to borrow money and use savings to get through the periods of unemployment. I have no doubt that it was a difficult time. However, on balance, I consider the amount offered by St. Andrew's to be a reasonable remedy for the errors that occurred.

Miss P's main issue now, that did not form part of her original complaint, is that St. Andrew's will not agree to pay 133% of her monthly mortgage payments for any future claims. I will look at this as part of this decision as St. Andrew's has also now sent her a final response letter in relation to this issue dated 20 November 2024.

There's no obligation for an insurer to always offer cover on the same terms. It is entitled to vary the terms from time to time, as long as it gives notice of any amendments. Although Miss P has said that she wasn't notified of a change in the value of her cover, I can see that it wrote to her in advance of the amendments, setting out what those changes would be.

So, although it was the case that mortgages with her lender benefitted from a payout of 133% of the monthly mortgage payment at the time of her claims, the terms and conditions of the policy changed on 24 October 2023, together with a change of administrator. The notice letter states:

'Changes to your Monthly Benefit

Your monthly benefit is the amount you are covered for in the event of a claim and this is shown in your Policy Schedule.

If you still hold a (Lender 1 mortgage) or (Lender 2 mortgage):

Your monthly benefit currently aligns to your monthly mortgage payment. This means that anytime your monthly mortgage payment changes, we also change your monthly benefit amount automatically.

From 24/10/2023 your monthly benefit will no longer be aligned to your monthly mortgage payment, meaning we will no longer automatically change your monthly benefit when your mortgage payment changes.

However you can now choose to increase or decrease your monthly benefit amount to meet your needs. You can increase your monthly benefit to an amount up to one and a half times your total monthly mortgage payment.

If you have previously told us you no longer want your monthly benefit to change when your mortgage payments change and have opted to instead fix your monthly benefit, then the below applies to you.

If you have opted to fix your monthly benefit or you no longer hold a (Lender 1) or (Lender 2) Mortgage:

Provided you still have a mortgage, you can now increase your monthly benefit to an amount up to one and a half times your total monthly mortgage payment. In the event of a claim, we may ask for evidence of your mortgage payment to check your monthly benefit reflects your latest mortgage payment.

You can also choose to decrease your monthly benefit.

It's important you check to make sure your monthly benefit provides the amount of cover you would need in the event of a claim. It's also important that any time your monthly mortgage payment changes, you consider whether you need to change your monthly benefit, as this will not change automatically.

(.....)

Changes you can make to your policy You can make the following changes to your policy by contacting us:

• Increase your monthly benefit - Provided you have a current mortgage, you can choose to increase your monthly benefit. The maximum monthly benefit that you can choose is your mortgage payment plus an amount up to 50% of your mortgage payment. • Decrease your monthly benefit - You can choose to decrease your monthly benefit.'

The letter also set out Miss P's current monthly premiums and the benefit derived from that. So, I think it would have been clear to her that the terms of the policy had been changed so that she would no longer receive 133% of her monthly mortgage payment amount if she were to make a claim and that, going forward, her premiums of £101.48 per month would entitle her to a monthly claim benefit of £1,674.59.

So, whereas Miss P talks about St. Andrew's still not having corrected its error, that is not the case. Because the terms for all policyholder's changed on 24 October 2023. Therefore, people with mortgages from those two particular lenders no longer automatically qualify for 133% of the monthly mortgage payment. In effect, the policy no longer tracks the mortgage repayments to offer a benefit which is a percentage of that amount. Instead, the benefit is now a fixed amount depending on the premium being paid. As Miss P's benefit level is in line with the current terms, and the change has been made across all policyholders and not just to her, I find no fault on the part of St. Andrew's.

Miss P says she subsequently received a letter reverting her policy back to a benefit level of 133%. However, the letter she has provided doesn't say that. She's also said that the letter, which is the final response letter dated 20 November 2024, states that it will allow her to

have a monthly benefit level of £2,330.63, which is 150% of her mortgage repayment amount, so it contradicts what St. Andrew's told our investigator about not being willing to increase her cover. But there's no contradiction here. St. Andrew's declined to continue to cover her at 133% at her existing premium. But the current terms do allow a policyholder to choose a benefit amount up to a maximum of 150% of their mortgage repayment amount, subject to them paying the necessary premium for that level of cover. Therefore, if she wishes to increase her level of cover back up to 133%, she would need to increase her premium payments.

I've thought very carefully about what Miss P has said and understand the strength of her feeling. However, overall, I am unable to conclude that St. Andrew's has done anything significantly wrong. It dealt with her complaint about the shortfall in claims payments fairly and reasonably. And the level of cover she has now is in line with the current terms and conditions. It follows that I do not uphold the complaint.

My final decision

For the reasons set out above, I do not uphold the complaint. However, St. Andrew's Insurance Plc should pay the £425 compensation now if it hasn't already done so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 1 July 2025.

Carole Clark
Ombudsman