

The complaint

Mrs R complains about the way The Royal London Mutual Insurance Society Limited trading as Scottish Provident (Scottish Provident) has calculated the monthly payment she's due for a Disability Income Benefit claim she made on a mortgage assurance policy.

Mrs R's represented by Mr R.

What happened

The background to this complaint is well-known to both parties. So I've simply set out a summary of what I think are the key events.

Mrs R took out a 'Self Assurance' mortgage policy in 2004. The policy provided Disability Income Benefit (DIB) cover amongst cover for other risks. DIB provided cover if Mrs R was prevented from carrying out the material and substantial duties of her own occupation due to illness or injury.

Unfortunately, in October 2024, Mrs R became very unwell and was unable to work in her own occupation. So she made a DIB claim on the policy.

Scottish Provident accepted the claim and calculated monthly benefit in line with the policy terms. It took into account Mrs R's income during the 12 months before she'd become unwell – from October 2023 and October 2024. Based on Mrs R's self-employed income during that period, Scottish Provident calculated that Mrs R was due an annual benefit of £11,178, with a monthly benefit payment of £931.50.

Mr R didn't think Scottish Provident had calculated benefit fairly. In brief, he referred to a policy term which allowed Scottish Provident to average an insured's earnings over a different period if using a different period would give a better indication of their usual earned income. He said that the income Scottish Provident had taken into account had been earned during a three-month period between July and October 2024. He didn't think this income represented what Mrs R's minimum annual expected earnings would be. He provided evidence that Mrs R had earned significantly more in the years preceding the claim and so he considered it would be reasonable for Scottish Provident to pay benefit in line with the maximum available annual benefit of £20,000.

But Scottish Provident maintained its stance and so Mr R asked us to look into Mrs R's complaint.

Our investigator didn't think Scottish Provident had calculated Mrs R's DIB unfairly. He was satisfied it had been reasonable for Scottish Provident to take into account Mrs R's actual earned income during the 12 months preceding the claim. And he didn't think Scottish Provident was required to use its discretion and calculate benefit using an average of Mrs R's previous earnings.

Mr R disagreed. In summary, he felt both Scottish Provident and our investigator had misinterpreted the policy and had failed to apply it in a fair and reasonable way. He referred

to Mrs R's previous earnings over many years and he set out why he believed her income in the 12 months prior to the claim was a temporary and exceptional deviation.

The complaint's been passed 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, whilst I'm very sorry to disappoint Mrs R, I don't find that Scottish Provident has calculated benefit unfairly or unreasonably and I'll explain why.

First, I'd like to say how sorry I was to hear about Mrs R's illness and the long-term impact this has had on her. It's clear this has been a very worrying time for Mrs and Mr R. I'd also like to reassure Mrs and Mr R that while I've summarised the background to this complaint and Mr R's detailed submissions to us, I've carefully considered all that's been said and sent. In this decision though, I haven't commented on each point Mr R's made and I'm not required to under our rules. Instead, I've focused on what I think are the key issues.

The relevant regulator's rules say that insurers must handle claims promptly and fairly. And that they mustn't turn down claims unreasonably. I've taken those rules into account, amongst other relevant considerations, such as regulatory principles, the policy terms and the available evidence, to decide whether I think Scottish Provident handled Mrs R's claim fairly.

I've first considered the policy terms and conditions, as these form the basis of the contract between Mrs R and Scottish Provident. There's no dispute that Scottish Provident accepted Mrs R had a valid DIB claim on the policy. This complaint centres on how Scottish Provident has calculated the benefit Mrs R's due.

Mrs R's policy benefit schedule states that the annual DIB amount will be £20,000. The schedule goes on to set out 'special provisions' which apply. This includes the following:

'The initial annual amount of benefit payable shall be restricted, if necessary, by us to an amount which, together with the total annual amounts of all other private disability benefits and income from employment being received by the life assured, does not exceed 50% of the life assured's gross annual pre-disability income.'

Scottish Provident included a list of definitions which apply to DIB, including 'earned income'. This says:

'Employed

*Earned income means the **gross taxable earnings for PAYE assessment purposes in the 12 months prior to the life assured becoming disabled.***

...

Self employed

*If the life assured is self-employed, earned income **means the life assured's share of pre-tax profit** (after the deduction of trading expenses and adjustment for capital allowances) from their trade, profession or vocation for the purpose of schedule D cases I and II of the Income and Corporation Taxes Act 1988, **in the 12 months prior to the life assured***

becoming disabled.' (My emphasis added).

The terms also state:

'We may average earnings over a different period, if in our reasonable opinion, the life assured's earned income fluctuates significantly and using a different period would give a better indication of the life assured's usual earned income.'

In my view, the policy terms explain - in a clear and not misleading way – how Scottish Provident calculates DIB. I appreciate that the maximum annual benefit available to Mrs R was £20,000 per year. But I think the policy documents make it clear that benefit will be calculated using a policyholder's *actual* income in the 12 months before the start date of their disability. And that the annual benefit won't exceed 50% of that income.

It's clear that in the 12 months immediately prior to Mrs R becoming unwell, she earned £17,050 through self-employment and was paid a salary of £5306 through a directorship. These roles were her 'own occupation' before she became unwell. This means that between October 2023 and October 2024 (when Mrs R became ill and unable to work), she earned a total of £22,356. 50% of that annual income was £11,178. So I'm satisfied Scottish Provident calculated the benefit Mrs R was due correctly in line with the policy terms.

Mr R feels strongly that Scottish Provident should use its discretion and use an average of Mrs R's earnings over a longer period. He considers it's acting unfairly by calculating DIB based on Mrs R's actual earnings between October 2023 and October 2024. It's clear from the financial evidence that Mr R has sent us that Mrs R did earn significantly more in previous years and that were an average to be used, it's likely she would have been entitled to the maximum payable benefit. So I've considered this carefully.

As the investigator explained, the policy terms don't *require* Scottish Provident to use an average of an insured's annual income over a different period. This is something it may choose to do at its discretion. In this case, it's chosen not to exercise that discretion.

It's common ground that between October 2023 and July 2024, Mrs R wasn't working, as she'd opted to take a career break. The income Mrs R was paid in the 12 months preceding her illness was earned in a three-month period between July 2024 and the onset of her illness in October 2024. So I accept that had Mrs R been working throughout the whole 12 month period, she'd likely have earned substantially more.

However, it seems clear that the reason Mrs R earned so much less in the relevant 2023-2024 period was because of the career break she took during that period and also due to her decision to begin working in a lower-paid job. Her ability to work and earn during that time doesn't seem to have been negatively impacted as a result of the illness which led to her claim. And her pay during that period wasn't sporadic due to the illness she went on to claim for. As such, I think Scottish Provident had all of the information it needed to have a clear picture of what Mrs R's actual earnings were in the 12 months prior to the claim and the reasons why her pay was substantially less than it had been previously.

In these circumstances then, I don't think it was unfair or unreasonable for Scottish Provident to choose to calculate Mrs R's annual benefit in line with the policy terms I've set out above. Nor do I think it acted unfairly by deciding not to use its discretion and calculate benefit using an average of Mrs R's previous earnings.

I appreciate Mrs R had previously had serious illnesses which may have resulted in her being able to make valid claims on the policy. I also understand that Mrs R continued with the policy during its term in good faith. However, I don't think I could fairly direct Scottish

Provident to apply its discretion in calculating benefit for this claim on this basis, given Mrs R didn't choose to make DIB claims during her past ill health.

Overall, I do sympathise with Mrs R's position and I know my decision will be very disappointing for her. But in all the circumstances of this case, I find Scottish Provident has calculated benefit fairly and reasonably and in line with the terms of the contract. So I'm not directing it to increase the benefit it's paid.

My final decision

For the reasons I've given above, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 4 February 2026.

Lisa Barham
Ombudsman