

The complaint

Mr and Mrs S complain that ARAG Legal Expenses Insurance Company Limited withdrew cover for a claim on their legal expenses insurance policy.

What happened

Mr and Mrs S are joint policyholders but Mrs S has dealt with the claim and the complaint, so for ease I will mostly refer to her. She made a claim on the policy after being threatened with legal action to recover an alleged debt.

Mrs S had consulted solicitors in relation to the dispute. ARAG reviewed the claim under the cover provided by the policy for contract disputes and asked the solicitors to provide information about the dispute. Cover was agreed and ARAG said it would appoint its panel solicitor to act for Mrs S but they were unable to take the case on. There was further correspondence with her solicitors about the case but ARAG then reviewed the claim and said it was not, in fact, covered by the policy.

Mrs S complained but ARAG didn't change its decision. It did accept there had been some delays in replying to correspondence and said it had at one point provided information that wasn't correct. ARAG offered compensation of £250 for the distress caused by this but Mrs S did not accept the offer.

Our investigator said it was fair for ARAG to withdraw cover, because the policy would only provide cover if the contract was entered into by the policyholder in their personal capacity and that wasn't the case here; Mrs S had said her defence to the claim was that she did not enter into the contract in her personal capacity and wasn't personally liable.

Mrs S disagrees and has requested an ombudsman's 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 relevant industry rules and guidance say insurers must deal with claims promptly and fairly, support a policyholder to make a claim, and not unreasonably reject a claim. They should settle claims promptly once settlement terms are agreed.

I have considered all the submissions from Mrs S carefully but agree with our investigator that it was fair for ARAG to withdraw cover, for the following reasons:

- The starting point for considering whether the claim was dealt with fairly is the policy terms. These set out the insured risks and the relevant one for this claim is the cover for contract disputes. This covers

“...a contractual dispute arising from an agreement or an alleged agreement which you have entered into in a personal capacity for:

- a. buying or hiring in goods or services; or*

b. *selling goods.*”

- So Mrs S is only covered if she entered into the contract in a personal capacity.
- The dispute relates to the management of trust funds and an alleged breach of trust. Although Mrs S signed the relevant contract she didn't sign it in her personal capacity, but in relation to the trust.
- Mrs S has herself explained that she was only involved in her capacity as a beneficiary of the trust and did not contract as an individual acting separately from the trust. Indeed, the basis of her defence to the legal claim is that she denies having any personal liability and says any liability rests with the trust.
- Her solicitors also said, while the agreement was signed by Mrs S, she was not acting in her personal capacity. They said she would be contesting the legal claim on the basis the other party acted in breach of trust and mismanaged the trust funds.
- From the information provided, the dispute does not concern a contract Mrs S entered into in her personal capacity, and that means there is no cover. So it was fair for ARAG to say it would not cover the claim.
- ARAG had originally said the claim would be covered. It has also acknowledged there were some delays replying to correspondence and at one point it provided some information that wasn't correct. ARAG offered compensation of £250 for the distress caused by that. The poor service would have caused some distress and to find out the claim wasn't covered after initially being told it was, would have been upsetting. In the circumstances I think the offer of compensation was fair.

My final decision

ARAG Legal Expenses Insurance Company Limited has already made an offer to pay £250 to settle the complaint and I think this offer is fair in all the circumstances.

So my decision is that ARAG Legal Expenses Insurance Company Limited should pay £250.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S and Mr S to accept or reject my decision before 16 February 2026.

Peter Whiteley
Ombudsman