

Case 6/2010

Funeral Policy – interpretation of conditions regarding reinstatement after lapsing

Background

1. This policy commenced on 01/01/07. The life assured died on 27 June 2009. Union Life declined to pay as they said the policy was still in a waiting period. The policy provisions state that after reinstatement “a new three month waiting period will be applicable.”
2. The policy terms and conditions state :

“Premiums are payable in advance and grace is given to the extent that the premium must be paid within the month cover is required. Should a premium be paid late for whatever reason, the policy will lapse and a new waiting period (no claim period) as stated below will be applicable. A joining fee is payable when joining a new policy”
3. The membership certificate states :

“Premiums are payable monthly in advance. Should premiums not be paid by the end of the month in which cover was required, the policy will lapse and after reinstatement will be subject to a new 3 month no claim period.”
4. No premium had been paid during January 2009, and the policy had lapsed.
5. The next premium paid by the complainant was on 03/02/09, and in terms of Union Life’s usual practice they applied this payment to the outstanding January premium. The policy was reinstated with a three month waiting period.
6. Thereafter premiums were received on 3 March 2009, (applied to February); 6 April 2009, (applied to March); 4 May 2009, (applied to April); 30 May 2009, (applied to May); and 18 June 2009, (applied to June). Because Union Life was applying each payment to the premium due the month before, cover remained subject to a three month waiting period.
7. It was pointed out to Union Life that the terms and conditions of the policy do not make provision for collection of outstanding premiums on reinstatement. The only condition is that on reinstatement a three month waiting period will apply. If Union Life had applied the premium received on 03/02/09, to the February premium, and not to the January premium, then premiums would have been up to date at the date of death.
8. None of the receipts issued to the policyholder after reinstatement were stamped with a warning regarding the three month waiting period, as is apparently their usual practice. In addition, the receipts are confusing as they state: “paid to 06/09” etc. We were advised by Union Life that this indicates “paid to 30/06/09,” and not paid to 01/06/09. Union Life also explained that in any event these dates cannot be relied on, as the branches are not connected by computer to their head office.

9. Although regular letters were sent to the policyholder to warn that the policy was in arrears, the letters were very confusing. They make no mention that the policy was still in a waiting period nor do the letters mention Union Life's practice of applying premiums in arrear, after reinstatement, which then necessitates a double payment to bring premiums up to date.

Provisional determination

10. A provisional determination was issued in which the office took the view that, after the lapse of the policy, the payment of a premium will result in the immediate re-instatement of the policy. The only condition mentioned in the terms and conditions is that a new three month waiting period will apply from the date of payment of that premium.
11. Therefore the payment by the complainant of a premium on 03 February 2009, should have re-instated this policy with effect from 01 February 2009, and not 01 January 2009, and the waiting period should have applied from 01 February 2009, to 30 April 2009.
12. As premiums were paid regularly thereafter, and as the date of death was 27 June 2009, it was the unanimous decision of the meeting that this claim should be regarded as valid and should be paid.
13. Union Life responded to the provisional determination by making an offer of 50% of the sum assured.
14. The claimant made a counter offer of 80%, which was not accepted by Union Life, who confirmed their original offer.

Final determination

15. Union Life's final offer was considered at an Adjudicator's meeting, and it was decided to confirm the provisional determination for the reasons mentioned therein.
16. The provisional determination that was made on 03 February 2010 is accordingly made final, and Union Life is instructed to comply with this determination within 30 days hereof by paying the claim.

DSM