

Case Study



Title: Smokers and Life Insurance

Source: Moneywise <http://www.moneywise.co.uk/>

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My husband and I have life insurance for payment on first death only (need to check). We have had this policy since 1989. It is index-linked and we have paid extra on it every year and the payout amount has also increased.

The problem is that I have only just noticed on the original policy copy, which has been filed away since we started the policy, it says we are both nonsmokers, when in fact my husband has always smoked. I have never smoked, and at the time we took out the policy I can't recall saying my husband was a nonsmoker and we have never tried to hide the fact. He has always stated on forms if asked that he was a smoker. I am worried now in case the insurer says we have deceived it. Should we notify our insurer and what should I say?

This is a difficult situation of which there are several possible outcomes:

- Your husband dies of smoking related condition; insurer investigates and declines the claim on grounds on non-disclosure
- Your husband dies of smoking related condition; insurer investigates and takes sympathetic stance and makes partial payment which is adjusted to reflect the smoker status
- Your husband dies of non-smoking related condition; insurer makes no additional enquiries and claim is paid
- You die first; insurer makes no enquiries and claim is paid

Such uncertainty is highly undesirable so your insurer should be informed. All companies take differing stances with scenarios such as this. Some may allow the policy to remain in force with an adjusted premium, some will only do so after further evidence of health and some will cancel the policy outright. This causes further issues such as the assumption that your current states of health will permit acceptance for replacement insurance and the fact that you are 21 years older so may pay higher premiums.

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I suggest you seek independent guidance because advisers should know the insurers and the stance they may take. Additionally, the adviser will be able to assess the overall suitability and cost-effectiveness of your policy. Ultimately, you should inform your insurer to be certain of an unequivocal pay-out.

The date of the policy inception suggests advice was received and if you feel you have been misrepresented you may have recourse via the ombudsman. The official line will be that you signed an application form which contained incorrect information which materially affected the application. However, there have been cases where the financial ombudsman has found against the adviser or their organisation because the circumstance in which the application was completed was not conducive to clarity and understanding.

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