

The complaint

Mr and Mrs T complain about a life policy that St James's Place Wealth Management Plc (SJP) sold them. Specifically, they are unhappy that the annual premium increases are different to the Average Earnings Index.

What happened

In 2005, Mr and Mrs T received advice from SJP. SJP made a recommendation for a flexible life policy to be written in trust to provide for a potential inheritance tax liability. The policy was set up with an initial sum assured of £300,400 for an annual contribution of around £3,250. The policy was set up to increase in line with the Average Earnings Index.

In Mr and Mrs T's suitability letter, SJP said:

"Both the sum assured and the premium are set to increase each year in line with the average earnings index."

Each year SJP sent Mr and Mrs T an indexation letter which outlined how much the premium would be and what the percentage increase of the sum assured was. In 2019, Mr and Mrs T's indexation letter also showed the percentage increase of the premium, rather than just the figure. This was higher than the Average Earnings Index and so they complained.

SJP explained that the suitability letter in 2005 was incorrect. It said that the sum assured would increase in line with the Average Earnings Index, but the premium would increase by an amount sufficient to maintain the new sum assured. It said the key features document and terms outlined this and that the sentence in the suitability letter was an error. It acknowledged this would've caused confusion and offered £250 compensation. SJP said the policy had run in the way it was supposed to.

Our Investigator felt the offer made was fair. He said he understood that it must have been frustrating for Mr and Mrs T to see the percentage increase of the premium was different to that of the sum assured, but he was satisfied the policy worked in line with the terms. And he said the actual increase of the premiums was set out correctly each year, so Mr and Mrs T were always aware of how much they would be paying. He didn't think that they'd have done anything differently had the error not been in the suitability letter.

Mr and Mrs T disagreed. They explained that they went ahead with the policy with the understanding that it would always been affordable as they were aware of the percentage increase of the premium each year. They said they wouldn't have done this had they been made aware that the premium would increase by a different percentage to the sum assured. They felt SJP should increase its offer to £1,000 for the trouble and upset it had caused them. They asked for an Ombudsman to reach 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.

Having done so, I've reached the same outcome as our Investigator. I think the offer SJP has made is fair and reasonable. I'll explain why.

It's not disputed that the suitability letter Mr and Mrs T were sent in 2005 contained an error. The policy premiums didn't increase in line with the Average Earnings Index – but the sum assured did. But I've seen the policy illustration as well as the terms of the policy and the key features document. This says:

"Your Life Cover...will normally increase each year in line with the Average Earnings Index..."

"Whenever your cover is increased, your contributions will go up by a greater proportion than the increase in cover..."

So, I think it was made clear in the documentation that the increase to the premiums would be higher than the Average Earnings Index. I'm also satisfied that all documents refer to the sum assured increasing in line with the index, rather than the premiums.

I acknowledge that Mr and Mrs T had a relationship with their SJP adviser and trusted what he said. And I can see that they were expecting the premiums to go up at the same rate as the sum assured. But I can also see the annual indexation letters they were sent. Each of these contained how much the premium was going to be for the following year, so it was possible to see that this was a higher percentage increase than the sum assured. So, whilst I understand seeing the percentage rate more recently would've been a shock, I don't think that they've been misinformed throughout the life of the policy.

Most importantly here, I've needed to consider whether Mr and Mrs T would've done something differently had the error not occurred. I can see they wanted this policy for a mitigation of a potential inheritance tax liability. And the indexation option was selected to account for this as their estate could expand. I understand that they felt that they could predict the premium increases because they thought they would rise in line with the Average Earnings Index, however I don't think that was truly the case. The Average Earnings Index changed over the years, so it wouldn't be possible to predict the increases from the outset of the policy. And, I don't think that they would've done something differently if they'd been told the premium would increase at a different rate in their suitability letter. This is because they wanted this type of policy, and the way it works is common for these types of policies. Also, I'm satisfied all other documentation they received set out that only the sum assured would increase at the same rate as the Average Earnings Index.

Their policy allowed for the indexation to be stopped, the illustration set out how premium increases are calculated and gave an indication of what these could look like and I can see that Mr and Mrs T continued the cover each year having been told the new premium to support the increased sum assured. So, whilst I understand that the percentage increase wasn't what they were expecting, I do think they were made aware overall that this would be different to the Average Earnings Index.

The initial mistake in the suitability letter has caused Mr and Mrs T some confusion, so I think the offer SJP has made for £250 is fair and reasonable for this. But, for the reasons I've explained, I don't think the absence of that error would've led them to make different decisions. I also think SJP has made it clear in other documentation that it was only the sum assured that increased in line with the Average Earnings Index.

My final decision

For the reasons I've explained, the settlement offer of £250 St James's Place Wealth Management Plc is fair and reasonable, so I won't be asking it to do anything more. It must now pay this to Mr and Mrs T upon their acceptance of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs T as trustees of the T Trust to accept or reject my decision before 18 July 2022.

Charlotte Wilson
Ombudsman