

The complaint

Mr and Mrs E complain that ReAssure Limited hasn't paid them a fair amount of interest on a backdated surrender value.

What happened

The facts of this case are well known to both parties so I don't intend to repeat them here. In summary, ReAssure didn't conduct a review on Mr and Mrs E's whole of life policy in 2017. Mr and Mrs E complained and said they would've surrendered the policy had they received the review. ReAssure offered to backdate the surrender value and refund the premiums paid since then in addition to £750 compensation. ReAssure didn't add 8% simple interest to the redress and Mr and Mrs E have complained about that. ReAssure confirmed that following another review, it wouldn't have offered the backdated surrender value and wouldn't add interest at 8%.

Our Investigator felt the complaint should be upheld. She explained that it was clear Mr and Mrs E were planning to surrender their policy, and it was likely they'd have done so if they'd received the 2017 review, so ReAssure ought to pay 8% simple interest on the surrender value as well as the refund of premiums as Mr and Mrs E have been deprived of that money.

ReAssure disagreed. It said that it didn't believe Mr and Mrs E would've surrendered the policy so felt its offer of redress was fair and reasonable and the interest of 8% shouldn't be awarded. ReAssure asked for an Ombudsman to review the complaint so it has been passed to me.

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.

It's not in dispute that ReAssure made an error and didn't conduct the review in 2017, I can see it made subsequent errors in the information it gave Mr and Mrs E about the policy, including what the review in 2017 ought to have said. The issue I need to decide is what Mr and Mrs E were likely to have done had these errors not been made, and therefore what fair redress would be.

Mr and Mrs E have submitted details showing they were considering encashing the policy when Mr E turned 70. It's not clear that this was the definite course of action they wanted to take regardless of the review outcomes, but it is clear it was an option they were considering. Mr and Mrs E have said that since the sum assured reduced at the 2009 review they had assumed they may have to surrender it before it became too expensive. And I can see Mr and Mrs E wrote to ReAssure, and chased this up, asking for their review and policy details. This shows to me that Mr and Mrs E were considering the best option for them in regards to what to do with the policy and I think it's likely they'd have considered surrendering the policy in 2017 to be their best option.

ReAssure has said that the policy would've "passed" the review in 2017, so don't think Mr and Mrs E would've surrendered it. But, it's clear from the communications that Mr and Mrs E understood how this policy worked, and if they'd been told the correct surrender value in 2017, alongside the underlying units and cost of cover, I think it's likely they'd have surrendered it. I do note that in 2018, Mr E was 70 and didn't ask to surrender it, but it appears they hadn't been sufficiently informed of the policy details at this point – I can see Mr and Mrs E were chasing correct information through to 2021, when ReAssure offered to pay them the backdated surrender value from 2017 and refund their premiums from that point. And in any event, Mr and Mrs E were clearly weighing up their options and given their experience and detailed submissions to this service, I'm persuaded they'd have surrendered the policy had they received correct information in 2017.

As I think it's likely Mr and Mrs E would've surrendered the policy in 2017 had they been given the information they ought to have been, it follows that the surrender value and refund of premiums should have 8% simple interest added in line with our well established approach for deprivation of funds.

ReAssure has offered Mr and Mrs E a total of £750 compensation for the distress and inconvenience it caused them by providing incorrect information and not carrying out the contractual reviews on their policy. Taking account of the amount of chasing Mr and Mrs E have done, and the impact of the errors, I don't think it would be fair for ReAssure to pay anything more than this amount.

Putting things right

To clarify, I think it's likely Mr and Mrs E would've surrendered their policy in 2017 had the review been conducted and the correct information given to them. I can see that ReAssure has paid Mr and Mrs E the surrender value as well as a refund of premiums from the date the policy should've been surrendered. ReAssure Limited must also do the following:

- To the surrender value - add 8% simple interest per annum from the date the policy ought to have been surrendered (31 October 2017) to the date the surrender value was paid.
- To the refund of premiums – add 8% simple interest per annum to each premium from the date it was paid to the date of the refund.
- If it hasn't already done so, pay Mr and Mrs E a total of £750 compensation for the distress and inconvenience.

If ReAssure Limited has already paid some interest on the surrender value and refund of premiums, this redress is limited to the difference in value between the above and what ReAssure has already paid.

If ReAssure Limited considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr and Mrs E how much it's taken off. It should also give them a tax deduction certificate if they ask for one, so they can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons I've explained, I uphold this complaint. ReAssure Limited must pay Mr and Mrs E redress in line with the instructions set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E and Mrs E to accept or reject my decision before 24 November 2022.

Charlotte Wilson
Ombudsman