

The complaint

Mr T complains that ReAssure Limited incorrectly calculated the surrender value of his whole of life policy.

What happened

In November 1989 Mr T took out a reviewable whole of life policy with a business that has since been acquired by ReAssure. The policy initially provided £53,000 of life and permanent disability cover. ReAssure has taken on responsibility for dealing with the administration of the policy and any complaints raised by Mr T.

Mr T requested that the policy be surrendered in late 2019 and ReAssure calculated the surrender value using the bid prices of the units on 10 January 2020. Mr T was unhappy with the surrender value and complained that it didn't reflect what was in the original terms and conditions of the policy. ReAssure explained to Mr T that it had made an error in its calculation and offered Mr T £200 for the inconvenience this may have caused him. Mr T didn't accept this offer and brought his complaint to the Financial Ombudsman Service.

One of our Investigators looked into things and thought that the original terms and conditions Mr T provided differed from those ReAssure used, but that the updated terms and conditions meant Mr T did receive a slightly more favourable surrender calculation as a result. The Investigator thought the £200 offer ReAssure made for the initial error was a fair and reasonable one, but that the adjustment applied to the capital units should be 26% and not 24% as this is what was detailed in the more favourable terms and conditions. Therefore, the Investigator thought ReAssure should also recalculate the surrender value using the 26% adjustment on the capital units of the policy and pay any difference to Mr T.

ReAssure accepted the recommendation of the Investigator but Mr T asked that an Ombudsman decides the complaint. It has been passed to me to decide.

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.

I may not specifically comment on every submission made by Mr T and ReAssure, but I wish to make it clear I've reviewed the welcome letter provided by Mr T and compared it to the extracts from the terms and conditions provided by ReAssure. I also reviewed the surrender calculations of Mr T and ReAssure before I reached my final decision. In doing so I'm persuaded that ReAssure do need to take steps to put things right and I will explain why.

The welcome letter Mr T provided explained how ReAssure would deal with a surrender request, although it doesn't go into great detail. In respect of the valuation of capital units at surrender, the letter said the value would increase from nil at age 20 to 100% at age 85.

ReAssure couldn't provide a copy of the actual terms and conditions but instead provided an extract of the terms and conditions of a policy from 1988 and an update to these terms in

2003. So, although I've seen the welcome letter and an extract of the terms and conditions, I'm satisfied that the terms and conditions provided by ReAssure are more likely to provide the full range of increase to the capital units at surrender, rather than the less detailed welcome letter.

When comparing all of these documents, I considered whether the changes to the terms and conditions were detrimental to Mr T and in this case, I've decided they weren't. The terms and conditions in 1988 were more likely to give Mr T a less favourable surrender value than those in 2003, and those which ReAssure should have used when the policy was surrendered in 2020. Because of this I've used the terms and conditions from 2003.

When the policy was surrendered in 2020, Mr T was aged 61. The terms and conditions from 2003 said Mr T would receive 22% of the capital units (at age 60) plus 2% for each subsequent year and part year. So, in this case, I would have expected Mr T to have had received 26% of the value of the capital units within his plan. For comparison, if the 1988 terms and conditions had been applied this would have meant the capital units would have been calculated at 22.656% of the bid price.

Unfortunately, the surrender value dated 10 January 2020 recorded the value of the capital units as £222.17 and £224.69, but this is only 24% of the capital unit value instead of the 26% detailed in the 2003 terms and conditions. ReAssure got this wrong and it should have used 26% of the bid price of the capital units and not 24%. To put this right, ReAssure should recalculate the surrender value of the capital units within Mr T's policy at 26% of the bid price of the units on the day of surrender. The difference between the value paid and the recalculations should then be paid to Mr T. I did consider asking ReAssure to pay Mr T interest on this amount, but I can see that ReAssure has already offered to pay him £200 to reflect the error it had made in respect of the surrender value. I consider this is reasonable because any interest award would be minimal.

When it responded to Mr T's complaint ReAssure admitted it made an error in the surrender value. To help me understand what error it was referring to I looked at a telephone call note of a call with Mr T on 25 June 2021. In this call note ReAssure suggests that the correct figure of 24% of the value of the capital units was used, but a subsequent letter dated 20 February 2020 may have given the impression it had used 25%. It offered Mr T £200 for the inconvenience this had caused him. I've looked at the letter dated 26 February 2020 and I can't see the calculation suggests the capital units were valued at 25% of the bid price. Instead, I can see it confirms ReAssure calculated the at 24% which I've already decided was wrong. Regardless of this, I do consider ReAssure's offer of £200 to reflect the inconvenience Mr T had suffered because of their perceived error was fair and reasonable.

I've seen that Mr T believes that ReAssure made further mistakes in its calculations, but I'm satisfied the amended surrender value I've directed is a reasonable remedy and in-line with the terms and conditions of the policy. And, although Mr T says he wasn't provided with updated terms and conditions, I'm satisfied he wasn't disadvantaged by the changes in the circumstances of this case.

My final decision

ReAssure Limited has already made an offer to pay £200 to settle the complaint and I think this offer is fair in all the circumstances and should be paid to Mr T. However, I've decided that ReAssure Limited should also recalculate the surrender value of the capital units within Mr T's policy at 26% of the bid price of the units on the day of surrender. And pay the difference between the value paid and the recalculation to Mr T.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or

reject my decision before 12 January 2023.

Paul Lawton
Ombudsman