DRN-4008806

The complaint

Mr H complains that The Royal London Mutual Insurance Society Limited [‘RL’} didn’t explain that allowing his whole of life policy to become policy paid-up would impact any future surrender value.

What happened

In 2017 Mr H stopped making payments to his RL non-reviewable whole of life policy and it became paid-up in late April 2018. When Mr H later asked for a surrender value it was significantly lower than previous surrender values. Mr H complained to RL.

RL didn’t uphold Mr H’s complaint and explained that the lower surrender value was due to a reduction in the death benefit (sum assured) of the policy. RL say this reflects the premiums it would no longer receive, and as the surrender value is the minimum of the current asset share and the death benefit, this resulted in a reduced surrender valuation after the policy had been made paid-up.

Mr H brought the complaint to the Financial Ombudsman Service and one of our Investigators looked into things. The Investigator thought that RL hadn’t done anything wrong. Mr H asked that an Ombudsman decides the complaint.

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.

Mr H says the crux of his complaint is that at the time he discussed with RL making his policy paid-up he wasn’t provided with information to help him make an informed decision. Mr H says if he’d known the surrender value would be adversely impacted, he wouldn’t have allowed the policy to become paid-up. My decision will focus on this aspect, but I will also consider other information RL provided Mr H.

The policy was designed to provide life cover for the whole of Mr H’s life. The premiums were non-reviewable, and the policy participated in the profits of the business. It was originally taken with a business that has now been taken over by RL. The policy booklet, which would have been provided at the time the policy was taken out, explains what would happen if premiums were un-paid and the policy was made paid-up. It says that no further premiums will be payable – after 12 months – and that future benefits will be calculated in accordance with current practice at the time. The same booklet explains the policy would have reduced benefits if it’s made paid-up. I think this makes it reasonably clear that allowing the policy to become paid-up would have an impact on the sum assured and subsequently the bonuses paid on the policy - and that this will reduce the benefits of the policy.

Mr H spoke with RL in early May 2017. In this call Mr H asked whether he could ‘stop’ the policy. RL told Mr H he could surrender the policy now – or at any time in the future - or allow the policy to become paid-up. RL explained that if the policy was made paid-up the sum assured would be reduced but bonuses could still be added to the reduced sum assured. RL accepts that the surrender value of the paid-up policy wasn't discussed during the call with Mr H in 2017. However, having listened to this call I'm not persuaded RL suggested Mr H make the policy paid-up. Instead, it pointed Mr H to seek independent financial advice about his options - and I think RL made it reasonably clear to Mr H the benefits would decrease if he allowed the policy to become paid-up. RL made it clear bonuses weren't guaranteed, so although Mr H may have been expecting to be provided with an estimate of a future surrender values, I don't think this is a reasonable expectation as this would depend on final bonuses at the time of surrender.

Mr H raised concerns about the reduced surrender value in 2022 and RL took some time to provide a final response to the complaint. As complaint handling isn't a regulated activity I can't look into this aspect. However, I've considered correspondence RL sent to Mr H before and after he allowed the policy to become paid-up. In July 2017 wrote to Mr H and this letter made it reasonably clear what the reduced sum assured would be if the policy became paid-up - and what the annual bonuses would reduce to. I'm satisfied this is in line with what the policy booklet said and what RL told Mr H would happen in the May 2017 call.

Mr H says the statement RL sent in 2018 shows a surrender value of £5,824.77 but the 2019 statement shows a surrender value of £3,648.31. Taking into account what RL had previously told Mr H in the July 2017 letter I've previously referred to – that the sum assured would reduce if the policy became paid-up if no premiums were paid for 12-months, I'm satisfied the 2019 statement reflects the change in the sum assured. This was the first statement issued after the policy became paid-up. I don't think these statements were incorrect or misleading. Unfortunately, the last payment Mr H made on the policy happened to be in late April 2017 which meant the 12-month period I've referred to didn't end until April 2018. This means that it wasn't until 2019 that RL were reasonably able to include the reduced sum assured in the statements it sent to Mr H. I have some empathy with Mr H here, but I'm not persuaded RL has done anything wrong. Mr H could have paid the 12 months premiums at any time before the end of April 2018, so I'm satisfied the information provided in the statements reflects the benefits of the policy on the date they were issued.

My final decision

For the reasons I've explained above, I've decided not to uphold Mr H's complaint against The Royal London Mutual Insurance Society Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 31 October 2023.

Paul Lawton
Ombudsman