

The complaint

Mr M complains that he received less than he was expecting when an endowment policy he held with ReAssure Limited matured.

In order to put matters right Mr M would like ReAssure to pay him the 'correct amount' he feels he should have received.

What happened

Mr M took out a with-profits endowment policy in 1982. The policy had a 40 year term.

In August 2021, Mr M received an annual statement from ReAssure. The statement set out, under the heading 'Your policy at a glance':

On 7 July 2021 your policy's surrender value was £26,821.33.

This is the surrender value you would get if you surrendered your policy today.

Mr M held the policy to its maturity date in early 2022 and continued to pay regular premiums into the policy until it matured.

In February 2022 Mr M received a total of £24,438.64 from ReAssure in respect of his endowment policy.

Mr M queried the payment he had received from ReAssure as he felt it was less than he should have received. He also asked for details of historic bonuses that had been applied to the with-profits fund.

ReAssure set out how the lump sum Mr M had received had been calculated, including the bonuses that had been applied. It said it was satisfied that the amount Mr M had received was correct. But it noted that it had incorrectly told Mr M that it couldn't confirm historic bonus rates, when he first queried the lump sum he had received, and it paid Mr M £75 for this error on its part.

Mr M wasn't satisfied with the response he received from ReAssure and referred his complaint to this service.

Our investigator said she thought ReAssure should pay Mr M a further £75, in addition to the £75 it had already paid him. She said she didn't think ReAssure had done enough to explain to Mr M why the amount he received when his policy matured was less than the July 2021 valuation he had been provided with.

She noted that more recently ReAssure had explained that the value of Mr M's policy fell between the valuation in July 2021 and early 2022, when the policy matured, as issues with Covid and the conflict in Ukraine had caused unpredictable market fluctuations in early 2022. But she said she hadn't seen anything to show that ReAssure had explained this to Mr M.

Mr M was not satisfied with our investigator's view and his complaint was passed to me to

determine.

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 appreciate why Mr M feels his policy should not have fallen in value between July 2021 and early 2022, particularly as he continued to make regular payments into it and because, as Mr M has explained, '*... the financial indices that this policy was invested in increased during the period 7/7/21 and 1/2/22*'.

I am sympathetic to Mr M's position. But having carefully considered this complaint I don't think ReAssure acted incorrectly when the amount it paid Mr M when his policy matured was less than the valuation he received dated July 2021. I'll explain why.

As Mr M is aware, his policy was invested in a with-profits fund. The reversionary bonuses (also known as 'annual' bonuses) once added can't usually be taken away. But the terminal bonus he received was not guaranteed and was only added to Mr M's policy at the end of the policy term. Final bonus rates can change without notice.

The final bonus reflected the difference between the amount ReAssure had already guaranteed to pay Mr M (by way of reversionary bonuses) and the overall amount the fund manager decided was fair to pay policy holders at that time.

It's important to explain that the bonuses paid on a with profits-fund are not a direct reflection of the current performance of the underlying investments. This is because the fund manager will consider the profit made on the underlying investments and employ *smoothing* to ensure bonuses can be added in later years when markets may be underperforming. Smoothing is intended to 'smooth out' some of the short-term ups and downs that an investor would otherwise be exposed to if they invested directly in the stock market.

ReAssure also had to keep sufficient funds to pay the guarantees that have to be awarded (for example the accrued bonuses) when investments are cashed in. For these reasons, the performance of a with-profits fund doesn't necessarily reflect the current performance of the stock market, or the performance of the stock market over the life of the investment.

So, although I am sympathetic to Mr M's position, and I understand why he feels the surrender value of his policy should not have reduced between July 2021 and early 2022, I can't reasonably find that ReAssure acted incorrectly when it paid out less than the surrender value it provided to Mr M, dated July 2021.

I have also reviewed the breakdown of the payment Mr M received and the fund factsheet for the with-profits fund Mr M was invested in. Having done so I haven't seen anything that shows or suggests that ReAssure made an error when it calculated the lump sum it paid to Mr M.

It is always disappointing when an investment does not perform as well as expected, but I can't reasonably find that ReAssure acted incorrectly when the lump sum it paid to Mr M on the maturity of his policy was less than the valuation it had provided seven months earlier. I have not seen anything that shows or suggests that ReAssure told Mr M that the July 2021 surrender value was guaranteed. And I am satisfied that ReAssure was entitled to determine the bonuses paid, including the terminal bonus Mr M received.

That said, like our investigator I do think ReAssure should have done more to assist Mr M when he queried why the lump sum he received was over £2,000 less than the valuation he had received dated July 2021. I think the £75 our investigator has recommended is fair for the trouble and upset this caused Mr M.

My final decision

My decision is that, for the reasons I have set out above, I uphold this complaint in part. To put matters right ReAssure Limited should pay Mr M a further £75, in addition to the £75 it has already paid him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 30 June 2023.

Suzannah Stuart
Ombudsman