

The complaint

The trustees of the K Trust, represented by Mrs K, complain about a reviewable whole of life (RWOL) policy they hold with Scottish Widows Limited (SW). They're unhappy with the outcome of a policy review in 2021.

What happened

For ease of reading, I will mainly refer to Mrs K. She took out the Lifetime Security Plan, a RWOL policy, in 1991. It provided a sum assured of £60,000 for monthly premiums of £30.05. It was reviewable and in 2021 SW wrote to Mrs K and said that in order to maintain the sum assured, the premiums would have to increase to £127.05. If they weren't increased, then the sum assured would fall to £31,941.

Mrs K complained to SW about the outcome of the review and asked them to reconsider the review. SW looked into her concerns but didn't think they'd incorrectly reviewed the plan. They noted that they'd reviewed the plan on an incorrect basis in the past which meant that it had passed reviews when it shouldn't have done. However, as this was an error on their part, in 2019 they'd recreated all the historical reviews and added units into the plan to put it back in the position it ought to have been in, if no errors had occurred.

They explained that the 2021 review had been carried out on the correct basis and it had showed that the premiums weren't sufficient to maintain the sum assured going forward, hence the need for change. They apologised if the letter they'd sent in 2019 regarding the historical reviews hadn't been received.

They also apologised for the 2021 review letter being received late which hadn't left Mrs K with a lot of time to respond. They offered £175 in compensation for the inconvenience they'd caused her. They subsequently wrote to her and offered a further £25 in compensation as they hadn't attached a letter they'd referred to in their response.

Mrs K didn't accept their findings and asked for our help with the matter. The complaint was considered by one of our investigators who didn't think that SW needed to do anything else to resolve the complaint. He acknowledged that they'd made errors with the reviews but thought that the compensation they'd offered was sufficient. He also noted that SW hadn't provided Mrs K with sufficient information about the policy in the past, but didn't think that she would have taken a different course of action even if they had.

Mrs K didn't accept the investigator's findings and as there's been no agreement, the complaint 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.

Having done so, I don't think this complaint should be upheld and I will now explain why.

I've firstly considered the issues relating to the errors with historic reviews. SW have accepted that they reviewed the policy on a maximum cover basis and not a standard cover basis. What this means in practice is that instead of checking to see if the policy was sustainable for life on its current terms, they only checked if it was sustainable until the next policy review.

The impact of this was that the policy passed reviews which should have failed. In order to put this right, SW recreated the reviews and paid money into the policy in the form of extra units in order to put it in the position it ought to have been. I think this is fair and reasonable and has ensured that Mrs K hasn't been disadvantaged by SW's errors.

However, there was a further error as their letter to Mrs K explaining what had happened doesn't appear to have been sent. Therefore, Mrs K was unaware what had happened until she received SW's response to her complaint about the 2021 review. There also appears to be an issue with the 2021 review letter which didn't reach Mrs K until 23 April 2021 and had a deadline to respond of 29 April 2021. There was also another error where they didn't attach a letter they'd referred to in the correspondence they sent to Mrs K.

I think that Mrs K was undoubtedly caused distress and inconvenience by these errors. However, I think the compensation of £200 that SW have offered is fair and reasonable in the circumstances of this complaint and is line with what I would have awarded if they hadn't made their offer. Therefore, I won't be asking them to do anything else in regard to this aspect of the complaint.

I've then considered the issues related to the outcome of the 2021 review. The main point of dispute is whether SW were within their rights to review the policy and make the changes that they did. It may be helpful if I firstly explain how RWOL policies work in practice.

The cost of providing cover isn't a fixed amount and will instead increase over time as the lives assured get older. At the outset, when charges are relatively low, the difference between the premiums being paid and the charges results in an investment pot being built up. As the lives assured get older, the cost of providing cover increases and can exceed the premiums being paid in, but this can be offset by selling the accrued funds, or the return from the investment pot.

Businesses will undertake reviews to ensure that the policy can continue to provide the chosen level of cover. They will look at a number of different factors such as the size of the investment pot, current mortality rates and investment performance. If they decide the policy isn't sustainable at its current premium, the consumer will usually be offered the option of increasing the premium.

This is what happened at the 2021 policy review, SW's assumptions were that the policy wasn't going to be sustainable for life on its current terms, so changes needed to be made. As I've previously noted, the charges of the policy would continue to increase over time, so if changes to the policy were delayed then it could potentially result in even more drastic action being required later down the line.

I appreciate the policy hadn't needed any changes in the past, but this was because of the errors with the reviews I've previously noted. For completeness, I've considered if Mrs K would've taken a different course of action, for example surrendering the policy, if the historic reviews had been completed on the correct basis.

Having done so, I don't think she would have. I say this because the purpose of the policy – providing a lump sum to cover IHT – still exists. I note she hasn't surrendered the policy despite the changes proposed in the 2021 review, instead choosing to reduce the sum

assured. I think gives an indication as to what her likely actions would have been in the past.

In a scenario where she'd have been made aware that the policy needed changes, I don't think she would have surrendered the policy, and I think it's likely she would have taken the same course of action she did in 2021 and reduced the sum assured.

So, even though SW made errors with historic reviews, I think they were within their rights to review the policy, and I don't think they treated Mrs K unfairly by proposing the changes that they did in 2021. Therefore, I don't think SW need to do anything to resolve this aspect of the complaint.

However, I do think they need to pay her £200 compensation for the errors they made with the historic reviews. I appreciate they previously sent her a cheque, but in her submissions to this service, she's mentioned that it was never cashed.

My final decision

Scottish Widows Limited have already made an offer to pay £200 to settle the complaint and I think this offer is fair in all the circumstances.

So, my final decision is that Scottish Widows Limited should pay Mrs K £200, unless it has already done so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Mrs C and Mrs K as trustees of the K Trust to accept or reject my decision before 28 October 2025.

Marc Purnell
Ombudsman