

The complaint

Mrs C complains that upon surrender of her whole of life policy, Liverpool Victoria Financial Services Limited (LV) paid her less than originally quoted because of changes to the method in calculating the value of the policy.

Mrs C is being represented in her complaint, but for ease I will refer to all action as being hose of Mrs C.

What happened

Mrs C was contacted by LV in October 2021 about a whole of life with profits policy which was taken out in 1978. In March 2022 the surrender value was confirmed at £14,501.74 but she decided not to surrender this until October 2022 by which point the value had dropped. She was informed in December 2022 that the surrender value had dropped to around £8,900. So, she complained to LV about the delays she encountered between requesting the surrender to being given the valuation around two months later.

She says LV took twenty-five days to begin the surrender process on 31 October 2022, then was told they needed a marriage certificate to confirm Mrs C's change of name and later also requested Mrs C's authority to add her son as her representative. This process wasn't completed until 17 February 2023.

In addition to complaining about the delays and the impact this may have had on the valuation, Mrs C also says the reason the value had dropped was because LV had changed the way they were calculating surrender values for these types of policies. She was later told in a call with LV on 27 January 2023, that any higher prices would have been honoured until November 2022.

Mrs C says she never received any communications about a change in the way the policy surrender values were being calculated or that a deadline applied to the surrender valuation. To resolve the complaint, she says the policy surrender value in March 2022 should be honoured and the remainder of around £5,600 should be paid to her.

In their final response letter in March 2022, LV agreed to pay £150 for the distress and inconvenience caused by the delays and errors made. They did not agree to increase the surrender value as they say the complete documentation to confirm the surrender was received in December 2022, as such the valuation was taken from this date. They also say they were within rights to make a commercial decision to change the way they calculated the value of policies as their approach was fair to all customers. They say they were not obliged to give Mrs C advance notice of these changes. Unsatisfied with this response, Mrs C brought her complaint to this service.

An investigator here considered the complaint and didn't uphold it. He said LV had accepted and paid £150 for the errors made and this was reasonable. He didn't think they'd done anything wrong in calculating the surrender value and agreed with LV that they didn't need to give Mrs C prior notice of any changes.

As Mrs C didn't agree with the investigator, this came to me for a decision.

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.

My final decision

Whilst I may not address each point individually, I would like to reassure Mrs C that I have considered all the information provided, even where I haven't specifically mentioned each point, and reached what I think is an independent, fair and reasonable decision based on the facts of this case. Having done so, I agree with the investigator's conclusion for broadly the same reasons, so won't be upholding this complaint. I will explain further.

Mrs C received a surrender valuation of £14,501.74 in March 2022, so I can understand why she was dissatisfied by the large drop in valuation. When LV informed Mrs C the value of her policy, they also stated *"This amount is based on the current bonus rates, including final bonus, which may be different at the time of the claim."* This is also confirmed in the call with LV on 7 March 2022, where Mrs C is specifically told that the surrender value quoted isn't guaranteed as well as any bonuses and the sum assured is the only element which is guaranteed. So, I am satisfied, that they did put her on notice that the final amount paid may be different to the figure quoted.

Fluctuations were expected but with the valuation being around £5600 less, I can see why this raised further questions for Mrs C particularly around LV's new method of calculations. They say they have changed their approach to the way they calculate the valuations to ensure fair value for all their consumers. Their valuations are made up of the sum assured, any regular bonuses already added to the policy and an amount for a discretionary final bonus. LV say they moved towards focusing on providing life cover which was the purpose of these kinds of policies and reconsidered the way the surrender value was calculated. The death and surrender values and any bonus were never guaranteed and was subject to change over time. These changes meant moving away from providing the same value on surrender as they did on death.

I should also make clear, following LV's commercial decision to change the way they calculate the valuations, this also means the death benefit for this policy is likely to be higher than before August 2022. Mrs C still has the same rights and entitled to receive bonuses as she was before and LV can still add performance related bonuses to the policies, albeit their approach to the calculations have changed. Their new approach is intended to share the profits fairly between their consumers and it is not uncommon for a business to make this kind of commercial decision to change the way bonuses are calculated. Overall, it is a reasonable decision that they were entitled to take so I don't think they've done anything wrong in changing their approach.

I've looked at whether LV have been fair and reasonable in their actions so I have looked at Mrs C's concerns around the delays she experienced and whether this could have added to the loss in surrender value. LV say the valuation in October 2022 would have been £9346.89, but this is still much less than what Mrs C was quoted in March 2022. The change in calculations were effective from 1 August 2022, so any impact to the policy valuation had already been affected by the time she contacted LV to surrender the policy in October 2022, and so she would not have been entitled to the valuation from March 2022 in any event.

Whilst the valuations confirm that the administrative delays would have impacted the surrender value specifically at that time, I am aware the policy has still not been surrendered

and a later valuation in February 2023, shows the value had increased to £10,083.95. It is clear that Mrs C was better off later than in October 2022 when she instructed the valuation and so, any delays she encountered have not affected the overall value of the policy.

I understand the difficulty Mrs C faces mainly due to the large drop in valuation and she feels she should have been told about any changes in advance, so I have looked at the Conduct of Business (COBS) obligations set by the regulator the Financial Conduct Authority.

COBS rule 20 makes a clear distinction between changes to the principle of *policies* and the *practices* about how policies are administered. The requirement to let policyholders know in advance when changes are made only applies to the *principles* around administering policies. Here LV have made a change in the *practices* on how these policies are administered and so the requirement is they must let policy holders know within a reasonable timeframe. As such, there is no obligation on LV to inform Mrs C in advance of the changes they made to the way they operate. They also satisfied the requirement to let policyholders know in a reasonable timeframe when they later sent Mrs C a notice of the change. Overall, I think LV haven't treated Mrs C unfairly in making the changes they did or how they have done so.

Looking at the administrative delays and errors, there is no dispute that these occurred, and so it is a question of whether the £150 LV paid was reasonable. Having listened to the call between Mrs C and LV on 7 March 2022, she is told that a marriage certificate will be needed to update the change of name, and this can be provided at any point or when the policy is surrendered. This did add to the time taken to resolve things but additional delays and errors on LV's part have clearly added to distress and inconvenience Mrs C faced when she found out about the drop in valuation. Much of what Mrs C encountered was down to delays and misinformation, but these issues were addressed and corrected relatively quickly. As a result, I consider the £150 along with an apology to be a reasonable award to make, and in line with what we would likely pay at this service.

My final decision

For the reasons given above, I do not uphold this complaint against Liverpool Victoria Financial Services Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 12 June 2024.

Naima Abdul-Rasool
Ombudsman