

The complaint

The trustees (Mr and Mrs L) of the Trust are unhappy, in summary, as they don't think Scottish Widows Limited ('Scottish Widows') has correctly administered the reviewable Whole of Life policy – a Flexible for Life Plan – held with it.

Although Mrs L has largely corresponded with us throughout, so I will refer to her where I think appropriate.

What happened

I've outlined what I think are the key events and points involved in the Trust's complaint below.

Mrs L took out a reviewable Whole of Life policy in 2001, having received advice to do so from a business I will refer to as 'Firm A'. The policy was on a maximum cover basis for a monthly premium of £20 and a sum assured of around £72,800. The sum assured was guaranteed for ten years until the first review, after which reviews would take place every five years until Mrs L turned 70 and then annually thereafter, or at any other time Scottish Widows – who is responsible for the provision of the policy and this complaint – considered that a plan review was required.

The July 2011 review letter said that Scottish Widows performed regular reviews to ensure the level of cover could be maintained by the premium. And that, based on current assumptions, this was sufficient to do that, so no action was required at the time. It said it makes assumptions at reviews about future fund growth and charges, as neither is known in advance. That charges increase as the life assured gets older and it's possible a higher premium would be required to sustain cover at future reviews.

Mrs L's June 2012 statement for the period August 2010 to 2011 showed that the plan's surrender value was now around £162 compared to the previous statement period when it was just under £199.

The 2016 review was missed, so Scottish Widows wrote to Mrs L with a review in July 2019 instead. It apologised for the missed review and said it had put this right as it had taken steps to maintain the cover at no additional cost to Mrs L. But that a review had now shown the premium was lower than it should be for the sum assured and wouldn't be enough to maintain this in future. Scottish Widows said it wanted to address the premium level now, otherwise Mrs L may be asked to pay a significantly higher premium or accept a significantly lower sum assured at the next review in August 2021. And Mrs L was told she could either cancel her plan, maintain the sum assured of just under £72,800 but for a premium of £45 or she could maintain the £20 premium but for a reduced sum assured of just over £36,300, with the latter being the default option if it didn't hear back.

Shortly after, Mrs L made a complaint to Firm A. On 10 September 2019, it sent its final response letter, not upholding her complaint that she'd been mis-sold the policy.

In early October 2019, Mrs L returned the 2019 review option form selecting to reduce the sum assured to just under £36,300 for the same £20 premium. Scottish Widows then sent Mrs L an acknowledgement which incorrectly confirmed she'd selected the option to increase the premium. And, after Mrs L contacted it to clarify this, Scottish Widows apologised and corrected this.

Although I haven't been provided with a full copy, a plan summary seemingly sent to Mrs L around August 2020 said the policy value had decreased from around £200 in 2019 to just under £24. It said that, after charges, £52 of that decrease was due to investment performance. And that policy charges were detailed on page 11, but I've said, I haven't been provided with a full copy of the summary to see the information charges information set out.

A review letter was next sent in September 2020. This provided similar general information to the 2011 review letter. And this time it said that based on current assumptions the plan couldn't continue without the need to alter either the premium or sum assured. It explained the timescales in which regular reviews usually to take place, but that it's possible premiums might need to change again in future and Mrs L may be asked to increase the premiums earlier than at the next review if necessary to maintain the current benefit level. The options given were to maintain the monthly £20 premium but for a reduced sum assured of just under £23,500 or to maintain the sum assured of just over £36,000 but for a monthly premium of £38, the latter being the default option. And the default option was later applied, effective from the start of November 2020.

In the meantime, in October 2020, shortly after receipt of the 2020 review letter, Mrs L complained to Scottish Widows that, in summary, she was unhappy she'd received a review letter two years in a row and outside of the five-year review period, that she couldn't afford the requested premium increase and was still paying her mortgage so needed the policy.

In October 2020, Scottish Widows sent its final response letter not upholding the complaint. Amongst other things, it pointed to a policy term which said it could review the premiums earlier than the next review date if necessary to maintain the level of cover. And the same month, unhappy with this, the Trust referred the complaint to our Service about the reduction in the sum assured, concerned this might happen again. And Mrs L added, amongst other things, that if she'd been aware the sum assured would reduce then she'd have taken out a policy guaranteed to pay out enough for her mortgage and funeral cost needs.

One of our Investigators looked into the review complaint against Scottish Widows and upheld it. They said, in summary, that the policy type was designed to be regularly reviewed. But that Scottish Widows ought reasonably to have known since around 2011 that significant changes would likely be needed to the premiums or level of cover as the policy costs were exceeding the premiums then. And that its correspondence didn't meet regulatory obligations and standards of good practice. The Investigator said they were persuaded that if Mrs L had been provided all the information she should have by Scottish Widows then, on balance, the Trust would have likely surrendered the policy and gone elsewhere. And our Investigator said it should pay the Trust the policy surrender value as at the 2011 review date, plus 8% simple interest.

Scottish Widows accepted this and sent Mrs L a cheque totalling just under £285, being just over £156 for the surrender value at the date of the 2011 review and just under £129 in interest. Mrs L was unhappy with this and didn't cash the cheque on the basis she wasn't made aware the sum assured could reduce, she said she feels the policy was mis-sold and that she wouldn't have taken it out if she'd known.

Our Investigator then sent their updated findings to the parties which explained that, as well as what they'd previously recommended, Scottish Widows should also refund the premiums Mrs L paid since the 2011 review, plus 8% simple interest.

Scottish Widows didn't agree and asked for an Ombudsman to consider the complaint afresh. It said, in summary, that as Mrs L still had a mortgage and dependents at home in 2011 this suggests a need for continued cover and that she would still have paid for cover elsewhere if she'd surrendered the policy then.

And I understand that as of September 2025 the policy was still in force, with Mrs L having continued to pay the monthly £20 premium.

Because no agreement could be reached the case has been passed to me for a decision.

I issued a provisional decision. In summary, I said that, on balance, I wasn't persuaded the Trust would have likely surrendered the policy and gone elsewhere if it had been provided with the information it should have by Scottish Widows. And that this meant I didn't intend to ask Scottish Widows to do anything in respect of the policy, such as refunding the premiums and backdating any surrender value. I said though that Scottish Widows had made a few errors, which I think have caused, or at least added to, Mrs L's frustration in the circumstances. And that I think Scottish Widows should pay the Trust £150 in compensation as a fair and reasonable amount to make up for this. And that I'm not asking it to do anything more than this.

While Scottish Widows accepted my provisional decision with no further comments to add, Mrs L didn't accept this. In respect of Scottish Widows administration of the policy as the policy provider, Mrs L didn't provide any further comments, other than that she's disappointed with the settlement amount being lower than our Investigator recommended. In respect of the sale of her policy though, Mrs L said that the original advice checklist from the time shows that the advice report wasn't read or understood by her prior to sale, indicating deception on the part of Firm A's adviser to ensure a sale.

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, my decision remains the same as that set out in my provisional decision, which I've largely repeated again below.

To be clear, my decision only concerns the Trust's unhappiness with the way Scottish Widows – as the policy provider – has administered the policy since this was taken out. Including, for example, whether Scottish Widows is entitled to review the policy and whether it provided the Trust with clear, fair and not misleading information in its correspondence.

I've separately responded to Mrs L's complaint about the sale of the policy and what happened at that time against Firm A, so I won't be commenting on that here.

While I've carefully considered the entirety of the submissions the parties have provided, my decision focuses on what I consider to be the central issues. The purpose of my decision isn't to comment on every point or question made, rather it's to set out my decision and reasons for reaching it.

In deciding this complaint I've taken into account the law, any relevant regulatory rules including the principles and good industry practice at the time. And in reaching my conclusions, I've also considered, amongst other things:

- The FCA's Principles for Businesses, in particular Principle 6 and Principle 7 (PRIN).
- The FCA's Conduct of Business Sourcebook (COBS), in particular COBS 2.1.1R(1) and COBS 4.2.1R(1).
- The FCA's Final guidance on the "*Fair treatment of long-standing customers in the life insurance sector*" (FG16/8).

What is the fair and reasonable outcome in the circumstances of this complaint

I can see that the applicable policy terms from when Mrs L's reviewable whole of life policy was taken out set out, in summary, that after the first ten years the policy is reviewed every five years by the provider until she turns 70, after which this will be annually, or at any other time it considers that a plan review is required, to establish if the benefits can be maintained without the need to increase premiums. And if these can't be and the premium isn't increased to the amount it has determined, then Scottish Widows can reduce the benefit amount to the extent that it considers can be maintained until the next review. So Scottish Widows is entitled to review the policy and its benefits.

The key feature of this type of policy is that part of the premiums paid throughout the years was to be invested to pay for the increasing costs of life cover later in life. This is because, like any other policyholder, there's an increased likelihood of increasing life cover costs as they get older, as the very nature of this type of policy means as someone gets older, the risk to the insurer increases due to the risk of a claim and so do mortality costs. So, while I appreciate Mrs L is unhappy with the effect of these increasing costs on the value of the policy, these are simply an inevitable consequence of the policy becoming more expensive as the policyholder gets older. As I've said, this is very typical for these types of policies. And it is also what allows these policies to be more affordable at the outset.

In the early years, when life cover costs are low, part of the premiums are invested to build up a fund that can be used to help pay for the increasing life cover costs in later years. At this stage, the premiums can meet the costs of the cover on their own. However, if the premiums remain at the same level, there inevitably comes a point where the life cover costs will exceed the monthly premium and units in the investment fund need to be sold to meet the shortfall, reducing the investment fund value over time – unless the fund's growth outpaces the rise in cover costs.

Eventually, regular increases in the cost of life cover will outpace the growth in the fund, so that as units in the fund continue to be sold, it will reach a point when the firm concludes that the premiums being paid and the fund value are no longer enough to pay for the costs of cover. To maintain the policy with its existing life cover, the premiums (if they are still at or around the level they were when the policy began) will need to increase suddenly and substantially and will continue to increase each year as the consumers get older and the life cover costs increase accordingly, unless the sum assured has been substantially reduced.

At this point, there can be several poor outcomes for the consumer. It's possible that the investment fund will be almost completely depleted, leaving little surrender value. Any increase in premiums is likely to be very expensive and potentially unaffordable at a time when the consumer may be retired or close to retirement and have limited means to meet significant increases in costs. Alternatively, if the level of life cover has reduced substantially,

the policy may no longer meet the consumer's objectives or ceases to be a cost-effective proposition.

The impact of the sudden and significant changes to the premium or level of life cover that occur at the point the policy fails a review, can be mitigated by adjusting the terms of the cover earlier in the life of the policy. If, for instance, a consumer elects to increase premiums some years *before* the policy is likely to fail a review, this will have a smoothing effect over time, so that the policy is less likely to fail a review and the sudden and dramatic premium increases down the track can be avoided.

This gives the consumer the chance to set premiums at a more affordable and sustainable level for a longer period – even for the rest of their lifetime. The new premiums will be higher than they were at the outset, but not as high as they would otherwise need to become at the point the policy fails its review.

Alternatively, at that earlier point, a consumer who is faced with significant increases in premiums or decreases in the level of life cover down the track might decide the policy itself is no longer cost effective, or that it is failing to meet its objectives, and elect to surrender the policy. In other cases, a consumer might decide that it is worth maintaining the policy on its existing terms right up to the point that the policy fails a review.

The opportunity for a consumer to make these decisions is a key event in the life of the policy. Given the impact of increasing life cover costs on the investment fund, and in time on the premiums (or sum assured), consumers have important decisions to make about whether to retain the policy, increase the premiums and / or decrease the sum assured during the life of the policy. Those decisions become more difficult the longer the consumer pays into the policy and the options available for mitigating poor outcomes start to diminish. So it is in the consumer's interest to make key decisions at an early stage in the policy's life cycle, and to do so in an informed way, firms need to provide consumers with clear, fair and not misleading information.

Increasing life cover charges and what should Scottish Widows have told the Trust?

Looking at the available evidence, I can see that by policy year ending 2011, the annual cost of Mrs L's policy had become around £265 and higher than her £240 annual premium (being £20 per month). So, based on the available evidence, I think 2011 was therefore a key point in the product's life cycle and for Mrs L's interests and information needs. By that point the policy was costing more than the premiums paid.

Taking into account the regulatory obligations I have set out above (PRIN) and what I consider to be standards of good industry practice at the time (including the regulator's views as expressed in FG16/8), and in any event what I consider to have been fair and reasonable in the circumstances, I'm satisfied that Scottish Widows should have taken steps to ensure it communicated information to enable Mrs L to evaluate the impact of the increasing life cover costs on the policy and the options available to the Trust in a clear, fair and not misleading way. This needed to include the risks, costs and benefits associated with those options, as well as giving clear timelines for the making of decisions where applicable.

And, in my view, this is something that Scottish Widows needed to do given I think it's likely the tipping point occurred around 2011. By giving the Trust clear information about how much the policy was costing and allowing it to compare those costs with the premiums being paid, Scottish Widows would've been acting consistently with the guidance at FG 16/8 that firms provide "*regular communications*" with customers – and to ensure that, in their communications, that "*firms [include] sufficient and clearly explained details regarding the performance of the product, its value and the impact of fees and charges*". Such

communications also needed to specifically set out the “*value of any premiums paid in over that period*”, and “*charges incurred over the period in monetary figures*”, including “*major components and the charge to the customer for benefits such as life cover and guarantees*”.

What information did Scottish Widows give the Trust

Either within the 2011 review letter itself – which was around the time the tipping point had been reached – or within a reasonable timescale afterwards, Scottish Widows had an opportunity to provide Mrs L with clear information to enable them to consider her options and make a timely decision. Particularly given that, with each year that passed, life cover costs would likely continue to increase, making any potential mitigating steps more costly than these otherwise would be over time.

I think Scottish Widows should've provided the information I previously outlined in a clear and accurate format, along with clear information about the options available to Mrs L, together with the costs and benefits as well as time frames for reply. And not in a passive way that required the consumer to draw important inferences for themselves. Even if precise numerical information about the costs of those options could not be given, then at the very least I would expect to see reasonable approximations or illustrative examples so that they could reasonably appreciate the importance of considering their options at that point.

As set out above, the review letters provided some information. For example, that reviews determine whether the level of cover can be sustained by the premium. These are based on assumptions about future investment growth and charges, changes may be needed at future reviews and the cost of cover increases with age. And Scottish Widows did provide a bit more information in the 2019 and 2020 review letters, as Mrs L was told that the policy wouldn't support the benefits going forwards as the premium wasn't enough to pay for the cover, so some changes were needed. But Scottish Widows should have also given Mrs L sufficient and clearly explained details to appreciate how much the policy was actually costing. There was no information about the cost of cover in the reviews letters, how these had changed, that the gap between the premium and the charges had closed and how to make the policy sustainable for life, for example. Nor did these give any projections or comparisons based on assumptions, for the Trust to know the impact of deductions to the policy and of the requested change in premium.

In summary, I've not seen any correspondence – I've not seen the annual statements that were sent to Mrs L – where Scottish Widows provided enough information about the cost of cover or a clear explanation that these were no longer being met by the premiums. Therefore, I think there was an imbalance of knowledge between the Trust and Scottish Widows, which meant it couldn't make a fully informed decision about what steps it wanted or needed to take following the tipping point being reached.

What, if anything, would the Trust have done differently?

Had the Trust been given clear, fair and not misleading information, the options open to it at that point would have been to surrender the policy for the cash in value, increase the premiums to maintain the sum assured, reduce the sum assured or take no action.

On balance, and for the reasons set out below, having considered all the submissions and information to decide what, if anything, I think would have likely happened if Scottish Widows had provided all the information it should have, I don't think it's likely that anything would have been done differently in the circumstances.

Mrs L said she took out the policy to repay her mortgage, any debts and cover funeral expenses if she passed away. And I understand that in 2011 she still had dependents at

home and that she is, or at least was until recently, still repaying her mortgage. As far as we were last made aware the policy has still been kept in place. That's despite Mrs L being given some information to know that the premium might need to rise in future, being made aware that the premiums were no longer supporting the sum assured and that the sum assured could and would otherwise decrease, in the way it did in 2019 and 2020. All this suggests to me that there has been a continued desire and need for the policy. And, in addition, the surrender value has remained relatively low against the respective sum assured. And, while I've taken into account that Mrs L complained to Scottish Widows following both the 2019 and 2020 reviews, I also note that after its 2019 final response letter she still accepted a reduced sum assured and continued with the policy.

So, on balance, I don't think it's likely that the Trust would have surrendered the policy, and any sooner if it has since done so, if Scottish Widows had provided it with the information it should have.

In addition, I can see that Mrs L kept the £20 premium the same throughout, knowing the above information and that the sum assured could and then did decrease in 2019 and 2020 if she didn't increase this. So I don't think the Trust was willing to pay, or would likely have paid, any more for the policy than it has.

And, for the same reasons as those above, I'm also not persuaded Mrs L would likely have done anything differently if she had been sent the 2016 review letter on time.

So, even if Scottish Widows had provided Mrs L with the information it should have in the way I've set out above, I'm not persuaded that the Trust would likely have taken a different course of action. This means I'm not asking Scottish Widows to do anything in respect of the policy, such as refunding the premiums and backdating any surrender value.

That being said, Scottish Widows has made a few errors, which I think have caused, or at least added to, Mrs L's frustration in the circumstances. For example, while Scottish Widows has said it has put right any financial impact of the 2016 missed review on the policy, Mrs L was clearly upset and taken aback at having received a review two years in a row – in both 2019 and 2020 – when she would have otherwise had more time in between if the 2016 review hadn't been missed. And, while the policy terms allow Scottish Widows to carry out a review earlier than every five years if necessary in the way it did in 2020, in the 2019 review letter it led Mrs L to expect that the next review would be in 2021, I think likely causing her frustration when she received this in 2020 instead.

So I think Scottish Widows should pay the Trust £150 in compensation – I think this is a fair and reasonable amount in the circumstances to make up for the above. I'm not asking Scottish Widows to do anything more than this.

My final decision

For the reasons given above, my final decision is that Scottish Widows Limited should pay the Trust £150 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 2 January 2026.

Holly Jackson
Ombudsman