DRN-4886244

The complaint

Mr O as Trustee for the O Trust complains about Phoenix Life Limited's administration of a reviewable whole of life policy. He complains that the policy has been mismanaged by Phoenix Life, levying unreasonable and excessive charges to avert its liability. He'd like the policy to pay out what it was originally intended to pay. Mr O is being represented by his sister in this complaint.

What happened

In 1994, Mr O's late father took out a Flexible Protection Plan, a type of reviewable whole of life policy. The sum assured at the time was £50,000 and the monthly premium £138.01. The policy was written in trust on a joint life second death basis.

In November 2023 the policy lapsed and Mr O's father complained about the administration of the policy and the sale of it. He said that he hadn't been made aware sooner that this would happen and complained that he'd paid a substantial amount of premiums over time. Phoenix Life looked into the complaint and concluded that the policy had been mis-sold on the basis that it shouldn't have been sold for IHT purposes. However, when it calculated compensation it said there was no loss. Mr O's father referred his complaint about the management of the policy to this service.

One of our investigators looked into the complaint, but didn't think it should be upheld. In summary, he considered that Phoenix Life's communications gave Mr O's father enough information to know how long the policy would last for and what options were available to him make the policy sustainable for longer. He also considered that the costs of the policy were the costs of providing the life cover and that these costs increased as the life assured got older.

Following the investigator's assessment, Mr O's father sadly passed away. Mr O's sister provided some additional submissions. She said:

- The summary statements were misleading;
- The investigator didn't say anything about the "extortionate charge laid against" the policy.
- The investigator also didn't consider the context of large companies buying out smaller companies, absorbing them and levying huge costs on the policyholders who took out policies in the first place.
- Phoenix Life had lawyers who ensure legal protection, but there was nothing protecting the "everyday policyholder".

As an agreement couldn't be reached, the case was 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.

I'd firstly like to extend my sympathy for the circumstances of Mr O's and his sister's complaint, Mrs B. I understand it has been a difficult and upsetting time for them.

However, in reviewing their complaint about the management of the policy I'm sorry to say that I do not find that Phoenix Life has done anything wrong.

In deciding this, I've taken into account the standards that applied to Phoenix Life when communicating with Mr O and Mrs B's father about the policy – including that it needed to take into account his information needs and ensure he was able to make informed decisions about the policy, ensure that its communications were fair, clear and not misleading and ensure that it provided him with key information about the policy at relevant times.

In 2005, Phoenix Life wrote to the policyholders and explained that based on new growth assumptions, the "cover cannot be sustained throughout life at the current level of premium". It estimated that the policy would last 12 years and 10 months after which the policy would be cancelled. It therefore provided some options – including reducing the sum assured to £41,101 which would make the policy sustainable for life or reducing it to £49,584. By choosing to keep the same sum assured, or reduce it by the minimum amount, Phoenix Life warned them that there would be a "significant likelihood of a substantial reduction in the level of cover that the policy will support throughout life". In January 2006, the option to reduce the sum assured to £49,584 was chosen.

In my view, Phoenix Life was clear in these communications about what the options were and what they meant for the future sustainability of the policy. The choice to reduce the sum assured by a small amount was in my view an informed choice, based on the policyholder's assessment of how much they needed the sum assured to be.

The following year, the policy was reviewed again and similar options were provided. At this point, the sum assured was projected to be maintained for 13 years – while a sum assured of £42,139 was projected to be maintained for life. Whilst I haven't seen a copy of the acceptance slip, I can see that by the time of the next review I have on file in 2016, the sum assured had been reduced to £42,139.

Both reviews explained that even where the premium was projected to last throughout life, it would only do so "if the review growth rate is achieved in the future".

In 2016 another review was carried out. This one concluded that the sum assured for £42,139 could now only be maintained for 6 years and 6 months. It gave Mr O's father the option to reduce the sum assured £33,116 which it projected would last throughout life – but from what I can see, this was not taken up. By not accepting to reduce the sum assured, Mr O's father had to accept the same warning as above – that there would be a significant likelihood of a substantial reduction in the sum assured.

The reviews in 2017, 2018 and 2019 all contained similar information and warnings, with the projection reducing year after year.

However, no changes were made to the policy during this time.

The 2020 review letter contained more information. It explained that to maintain the policy throughout life, the cover needed to reduce to £23,816. It also explained that the cover of

£42,139 could only be maintained for another 2 years and 9 months because the “current level of costs and charges required to provide your policy benefits is greater than the payments you are making”. It explained this meant the fund value on the policy was reducing and, when the policy valued would reduce to nil “the policy and its benefits will end”.

Other options included setting the sum assured to a value in between the current value and the “for life” value, as well stopping payments altogether or surrendering the policy. No choices were made as a result of this letter.

The following year, the policy was reviewed again and similar options were given – although the sum assured for life option had now reduced to £20,447. Again, no choices were made as a result of this letter.

Finally, the last review before the policy lapsed was carried out in October 2022. This letter explained that the sum assured of £42,139 could only be maintained for 10 months at which point the policy would end. The sum assured for life option was now £12,885.

As no options were chosen, in September 2023 Mr O’s father received a letter that explained the policy had now ended and no benefits would be payable. It gave the option to quote a replacement policy.

In my view, these communications clearly alerted Mr O’s father to what was happening with the policy and gave him sufficient information to allow him to decide for himself what options he wanted to choose, based on his own assessment of his needs. The letters provided clear information about the costs and performance of the policy, as well as projections about its future sustainability and options to allow Mr O’s father to mitigate some of the future risks he was facing. However, it was for him to decide what choices he wanted to make and to what extent he wanted to make changes to the policy.

I’ve also considered the statements that were being issued around this time. These statements clearly showed the costs of the policy, how much was being paid in and how much the fund was reducing to. For example, the 2023 statement showed the costs amounted to £7,383.42 whilst the premium being paid amounted to £1,656.12. Since the fund value was only £5,614.53 (having reduced from over £12,000 the previous year), in my view it was clear from this statement that the policy was going to lapse in the very short term.

Taking all this into account, I’m satisfied that throughout the life of the policy Mr O’s father was given enough information to decide what options best suited his needs – taking into account what he could afford to pay, his needs for the policy, as well as how long he wanted it to be sustainable for.

I completely understand why Mrs B and Mr O have raised their concerns, but I’ve not found any misleading information in Phoenix’s communications.

In relation to the fees, I understand why Mrs B considers they were “extortionate”. It’s clear that in the last few years of the policy, the life cover charges were very high. But this isn’t unusual for these types of policies – it reflects the ever increasing risk of the firm having to pay out a claim. My role doesn’t extend to deciding how much Phoenix Life ought to have been charging for the life cover it was providing. I have seen no evidence to show the calculation of the cover charge was not a legitimate exercise of Phoenix’s commercial judgment.

Phoenix Life was entitled to take a reasonable view of the risk the policy posed to it and, on a commercial basis, put a price on that risk. And it did so following a typical process, run by industry professionals, which were subject to oversight and regulation.

For these reasons, I'm sorry to disappoint Mrs B and Mr O, but I'm not persuaded that it would be fair and reasonable to uphold their complaint, or ask Phoenix to pay out a claim on the policy.

In my view the policy lapsing was a risk that Phoenix Life fairly and reasonably highlighted to the policyholders for many years and it couldn't have reasonably done more to ensure that risk was appreciated, information provided and mitigating options outlined.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 17 September 2025.

Alessandro Pulzone
Ombudsman