DRN-4895613

The complaint

Mrs J complains that her Royal London Mutual Insurance Society Limited single premium with-profits endowment plan {‘the policy’} provided a much lower return than she expected.

What happened

When Royal London recommended the policy in 1998, Mrs J’s objective was to provide a lump sum possibly for the benefit of her daughter later in her life. The policy had a 25-year term and included a sum assured to which profits could be added. When it matured Mrs J complained to Royal London that the amount paid was much less than she expected, but Royal London didn’t uphold the complaint.

Mrs J brought the complaint to the Financial Ombudsman Service and one of our Investigators looked into things. Our Investigator thought that Royal London hadn’t done anything significantly wrong. Mrs J asked that an Ombudsman decides the complaint, and it was passed to me to consider.

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.

Mrs J is dissatisfied with the performance of the policy and the pay-out she received and, taking into account the Financial Conduct Authority (‘FCA’) rules and the Consumer Duty, she believes it was not fit for purpose. The policy Royal London sold to Mrs J is a “closed” product (for the purpose of the Consumer Duty) that matured in October 2023. For closed products and services, the Consumer Duty only applies where the event complained about happened on or after 31 July 2024. But that was not the case here. So, the provisions of the Consumer Duty don’t apply in this instance. However, Royal London has always been subject to other FCA Principles and rules and that includes having due regard to Mrs J’s interests and treating them fairly. I’ve therefore taken these into account in reaching my final decision.

It’s important for me to explain that the Royal London policy is a life policy with the potential for investment returns over and above the basic sum assured. It is not simply an investment like a bank or building society deposit, as it has an element of life cover, and this has to be paid for. In this case, the investment element was made into Royal London’s with-profit fund.

The crux of Mrs J’s complaint is that the performance of the policy was not as good as she expected. I understand Mrs J will be disappointed, but for very much the same reasons as our Investigator, I’ve decided not to uphold the complaint. I will now explain why.

At the time of the sale Mrs J recalls she was told of the past performance of the with profits fund. Regardless of this, Royal London would have provided documents at the time of the sale that would have made it reasonably clear that past performance was not guaranteed. Performance of the with-profits fund relies on bonuses being added to the basic sum assured, along with the potential of a terminal bonus, and neither of these bonuses are guaranteed. The only guarantee offered by the policy was the payment of the basic sum assured (life cover). This would be paid after 25 years, or if Mrs J passed before the maturity date.

Mrs J took out the policy when Royal London was a mutual society. She believes the performance of the with-profits fund suffered when Royal London stopped selling endowment policies and the fund was closed to new investors. Although bonuses will be partly based on gains within the fund, closed or otherwise, a with-profits fund doesn’t function in the same way as other investment funds. The amount of the bonus is not an equal proportion of the profits of the fund. Instead, Royal London fund managers would have considered the profit made within the fund and employed smoothing to ensure bonuses could be added in later years when markets may be underperforming. Royal London have to hold themselves to the guarantees that have to be met (such as 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. It’s for Royal London to make a commercial decision how much the bonus should be, and this isn’t something that the Financial Ombudsman Service has the power to change.

Royal London’s actuaries have provided details of the net returns on the policy and Mrs J received a net annualised return of 5.92% on her investment. This was made up of annual bonuses and a terminal bonus. The growth is net of any charges for the life cover the policy provided. In simple terms, Mrs J invested £10,000 but the minimum death benefit (the basic sum assured) was £25,554. This is an important consideration as Mrs J’s objective for this policy was to possibly provide a lump sum for the benefit of her daughter later in her life. In this case the minimum death benefit for the policy would have been payable if Mrs J had passed in the early years of the policy. Such a payment would have enabled Mrs J to leave significantly more to her daughter than the £10,000 invested, particularly in the early years. So, I can’t reasonably say the policy Royal London recommended didn’t take into account Mrs J’s needs at the time. Nor can I say that, in these circumstances, the net return for the investment was an unreasonable one, particularly as the cost of providing the guaranteed basic sum assured (life cover) was paid for from the policy.

Mrs J’s daughter was aged three at the time of the sale. As I can’t see Mrs J specified when she may want to provide a lump sum to her daughter, it seems more likely than not that her intention was to provide funds for her daughter at an unspecified date. The review document from the time of the sale says that Mrs J was provided with various illustrations over different terms and that she was content that a term of 25 years would meet her needs. So, I’m persuaded it wasn’t unreasonable for Royal London to recommend a 25-year term for the policy.

The review document from the time of the sale records that Mrs J’s attitude for investment risk was *“Nil to Low. Bank/Building Society Deposits, TESSA’s, Endowment policies.”* In this case, the with-profits fund had a potential advantage for Mrs J over bank or building society accounts. Specifically, that if she passed in the early years, the policy with Royal London would pay out a minimum of £25,554 – whereas a bank or building society account would have returned the £10,000 plus interest. The policy also had the benefit of potential profits from Royal London’s fund. Without the benefit of hindsight and considering the term of the policy was 25-years, the with profits fund had the potential to outperform cash even accounting for the built-in fees. So, it doesn’t seem unreasonable that Royal London recommended the with-profits fund at the time.

I’ve considered whether Mrs J had the capacity to invest £10,000 in 1998. The review document records she held £18,000 in cash deposits in her own name. At the time, all of the household bills were covered by her husband. This would leave Mrs J with £8,000 which I consider was a reasonable emergency fund to hold at the time. So, I'm persuaded it was reasonable for Royal London to recommend an investment of £10,000 to help her grow a lump sum over a 25-year term in order to meet her objective.

Taking all of the above into account, I've decided Royal London didn't mis-sell the single-premium endowment policy to Mrs J. The policy didn't meet Mrs J's expectations in terms of the returns provided, but Royal London made it reasonably clear at the time of the sale that bonuses weren't guaranteed and that they only guaranteed a payment at maturity, or if Mrs J passed earlier than this. On top of the guaranteed amount payable there was the possibility of receiving regular bonuses and a terminal bonus, but these too were not guaranteed.

My final decision

For the above reasons, I've decided The Royal London Mutual Insurance Society Limited didn't miss-sell the single premium with-profits endowment plan to Mrs J.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs J to accept or reject my decision before 7 April 2025.

Paul Lawton
Ombudsman