DRN-5122954

The complaint

Mr M complains that The Royal London Mutual Insurance Society Limited (Royal London) made errors and caused avoidable delays to his annuity purchase. As a result, he thinks he's now receiving a lower annuity than he should be.

What happened

Mr M had two pension policies with Royal London which I understand he'd held with them for more than 30 years. He wanted to consider using his pension funds to buy an annuity, so he took advice from an Independent Financial Adviser (IFA) in April 2023.

Mr M's IFA spoke to Royal London on 29 June 2023 about different quotations and beneficiary options for Mr M's annuity. He wanted to look at joint annuities, but didn't have spouse details for Mr M. Royal London then requested the information it needed.

Royal London and Mr M's IFA then exchanged emails in relation to additional health questions so that Royal London could obtain quotes on the Open Market (OM).

Royal London provided quotes for Mr M through his IFA on 10 July 2023,

The 10 July 2023 email explained that one of Mr M's policies had a "*Voluntary*" element, and the other policy was a full "*Voluntary*" element, which meant that the Guaranteed Annuity Rate (GAR) would be lost on those elements unless the annuity quotes requested were produced on a single life basis with level payments. As such, Royal London said it couldn't produce the requested joint life quotes. It said that if Mr M wanted those he'd have to go through the OM.

Mr M's IFA repeated his request for joint life quotes on 18 July 2023. Royal London responded on 19 July 2023. It reconfirmed the position it'd outlined in its 10 July 2023 email. And stated:

"Usually when we deal with Financial Advisors we only provide figures for Royal London, this is how the appointment stage is bypassed. As you would usually search the open market yourselves. However if you would like us to search the open market for you it would require booking an appointment with either yourself or the policy holder to go through additional information."

Mr M's IFA then requested an appointment. Royal London replied to him on 26 July 2023, stating that it would call him for the information it needed. It said it could then: "*pick this up and produce quotes for you for the open market*."

Royal London next sent Mr M's IFA a further email asking for additional medical details. It chased for this on 4 August 2023. The information was then provided.

Royal London then provided quotes including OM Options (OMO) on 7 September 2023 and 28 September 2023. The quotes were based on Mr M taking a 25% Tax-Free Cash (TFC) lump sum. The quotes only contained a 50% spouse's annuity for one of three fund values shown, with the other quotes being for single life pensions.

Mr M's IFA emailed Royal London after receiving the 7 September 2023 quotes to ask it to quote for a 50% spouse's pension on all of the funds. It replied that it couldn't do this as it would invalidate the GAR.

The 28 September 2023 quotes stated that Mr M could get the following annuities with a provider I'll refer to as provider A:

Policy 1: All "Voluntary" - Fund value: £43,188.80

25% tax free cash and OMO single life annual annuity: £2,593.44

Policy 2: "Voluntary" element - Fund value: £59,689.40

25% tax free cash and OMO single life annual annuity: £3,664.08

Non-voluntary element Fund value: £115,660.00

25% tax free cash and OMO annual annuity and 50% spouse's annuity: £6,372.96.

Mr M wanted to accept these quotes. So on 29 September 2023, his IFA emailed Royal London about that.

Royal London then replied on 5 October 2023 to ask which option and on which date Mr M would like to proceed. The email also stated that OMOs would usually be dealt with by the IFA.

Mr M's IFA spoke to Royal London on 10 October 2023 to follow up on the quotes. He told it that Mr M wanted the OMO option.

Royal London emailed Mr M's IFA on 13 October 2023. It repeated the point it made it its 5 October 2023 email about OMOs being dealt with by the IFA. And stated:

"*I appreciate that our team provided you with OMO quotes however this is not the agreed process and we would only assist you as the IFA if Mr M wanted a Royal London annuity.*

As you have confirmed that Mr M wishes to go with OMO, please can you proceed with this yourselves as we cannot do this for you. You may need to shop around again as the figures may have changed with the OMO providers since our team incorrectly issued the OMO quotes to you.

This error has been raised via our management team and I sincerely apologise for any inconvenience this may cause you."

On 17 October 2023, Mr M's IFA asked Royal London for up-to-date fund values and Royal London annuity quotes so he could go on the OM. After that, there was an exchange of emails about the re-quotes. Although I understand that a re-quote for one of the policies was provided on 27 October 2023, Mr M's IFA chased Royal London on 8 November 2023 for the re-quote on the other policy, stating he still hadn't received it.

On 13 November 2023, Mr M submitted a formal complaint as he felt there'd been no significant progress. He felt he'd been given incorrect information and that Royal London had caused avoidable delays. Mr M also tried to call Royal London twice on 14 November 2024, but couldn't pass security. He then sent Royal London a follow up email, as it'd instructed.

Mr M said that Royal London told him it couldn't provide an OMO to his IFA but it could do it for him if he applied to it directly for an annuity. Royal London then arranged an appointment for Mr M to discuss his options directly with a pension guidance specialist on 16 November 2023.

The appointment went ahead on 16 November 2023 and Royal London issued quotes by first class post. But Mr M called Royal London on 27 October 2023 as he hadn't received them. Again, he couldn't pass security. Royal London re-sent the quotes the same day.

Mr M emailed Royal London again on 29 November 2023 as he still hadn't received the quotes. He also emailed its complaints team on the same date to add further complaint points, including his difficulties receiving the quotes Royal London said it'd sent to him on 16 and 27 November 2023.

On 2 December 2023, a Royal London manager unsuccessfully tried to call Mr M. He sent a follow up email to check whether Mr M had received the missing quotes, so that a follow-up appointment could be arranged to issue the application pack. Mr M replied the same day to confirm he was yet to receive the quotes and that he couldn't make any decisions without written confirmation.

On 8 December 2023, Mr M had a telephone conversation with the Royal London manager who'd tried to call him. Before that call, the manager emailed the missing quotes to him. The manager then explained that Mr M could've secured joint life annuities on both policies, despite what he'd been told previously.

Mr M decided to go on the OM through his IFA once he received the 16 November 2023 quotes from Royal London by email on 8 December 2023. He chose to take 25% TFC. And then used his remaining funds to buy a 75% joint life level annuity with a ten-year guarantee with a provider I'll refer to as provider B.

On 28 December 2023, Mr M emailed the Royal London manager he'd been dealing with to tell him that the letter it'd sent him on 16 November 2023 was at the Royal Mail sorting office when he went to collect another item. He noted that the 27 November 2023 letter wasn't there. The Royal London manager replied on 3 January 2024. He said that Royal London was working on solutions to provide alternative means of issuing documentation. But in the meantime it was reliant on Royal Mail to post documents when issued.

On 15 January 2024, Royal London transferred the funds from both of Mr M's policies to provider B. I understand it received the funds on 16 January 2024.

Provider B then paid Mr M TFC of £56,798.07. And used £170,394.23 to set-up an annuity of £12,156 each year. I understand that Mr M received his first annuity payment, covering the two payments for 16 January 2024 and 16 February 2024, on 16 February 2024.

On 24 February 2024, Royal London issued its final response to the complaint. It said that it doesn't facilitate OM transfers between IFAs and the OM provider. But that it didn't make Mr M's IFA aware of this until 13 October 2023. It apologised for the inconvenience this had caused. It also accepted that it'd provided a poor service, that it'd caused delays in the receipt of requested information, and that there was a lack of clarity in its processes. Royal London offered Mr M £200 compensation for the distress and inconvenience this had caused.

Mr M brought his complaint to this service in May 2024. He felt Royal London had provided him with poor and incompetent service. He said it'd taken over nine months to claim an annuity from his pension plans. And that he received a lower annuity than he should've because of the delays. He also said that he'd gone without annuity income for six months at a difficult time in his life, when he'd been made redundant and had health issues. He felt that the £200 Royal London had offered him wasn't appropriate for the losses he'd suffered. And said he hadn't accepted that money.

Mr M felt he'd suffered the following losses because of the avoidable delays Royal London had caused:

- He was now receiving an annual annuity of £12,156.00 from provider B, but he felt he should've been receiving an annual annuity of £12,630.48 from provider A.
- He felt he should've received his TFC much sooner than he had. He therefore considered he'd lost interest on that money.
- He felt he should've received additional monthly annuity payments, as his annuity should've started sooner.

Overall, Mr M felt that Royal London's service failures had lost him over £10K.

Our investigator didn't consider that Royal London's offer of £200 compensation for distress an inconvenience was reasonable. She felt that Royal London had caused delays to the set-up of Mr M's annuity with provider B. And that it should put Mr M back into the position he would've been in but for the delays and incorrect information it'd provided.

Our investigator said that Royal London had acknowledged that it shouldn't have issued an OMO annuity quote to Mr M's IFA in September 2023. She felt that before those quotes had been issued, there'd been email correspondence during July/August 2023 about health information that was needed for OMO quotes, but which hadn't been necessary for a Royal London quote. She also felt that the appointment Royal London had suggested to Mr M's IFA in its 19 July 2023 hadn't been needed. She felt this had added to the delay of having a quote issued.

Our investigator felt that the misinformation from July 2023 had led to a sequence of events that could've been avoided, and that these had caused further delays to the set-up of the annuity. She acknowledged that Mr M had confirmed to Royal London on 29 September 2023 through his IFA that he wanted to proceed with the OMO offer with provider A. But felt that if Royal London had explained in July 2023 that it wouldn't facilitate OMO annuities through an IFA, Mr M's IFA would've then looked on the OM at that stage for Mr M. She felt that if this'd happened, Mr M would never have been provided with the OMO annuities he said he'd decided to elect in September 2023. And that all subsequent delays caused by Royal London could've been avoided.

Our investigator considered that, but for the incorrect information and the subsequent delays, Mr M would've asked Royal London to transfer his pension funds to provider B by 19 August 2023. And that provider B would've received those funds by 26 August 2023, with Mr M's annuity then being purchased by 30 August 2023, after he'd taken his TFC. She felt that as she couldn't be certain about what OMO annuity quotes Mr M would've received between July/August 2023 from different providers, and which one he would've accepted, it would be fairest to consider the actual annuity quote he'd accepted from provider B and then compare that with the annuity quote he would've received from provider B in July/August 2023 on the same basis.

Our investigator felt that if there'd been no misinformation or delays, provider B would've received Mr M's funds for the annuity purchase on 26 August 2023. And that it would then have used the annuity rate available on 27 August 2023 for his annuity. She then felt that Mr

M’s annuity would’ve been purchased and his TFC paid by 30 August 2023.

To put things right for Mr M’s past losses, our investigator felt that Royal London should compare the annuity payments Mr M had already received - and the TFC he received on 16 January 2024 – with what she felt Mr M would’ve received but for Royal London’s failings. If this comparison identified a loss, Royal London should then compensate Mr M accordingly, with interest at 8% simple per year.

To put things right for Mr M’s future losses, our investigator felt that Royal London should compare the annuity income he would receive under his current annuity with that of the annuity income he would’ve received based on the rate that applied with provider B on 27 August 2023. If this comparison identified a loss, Royal London should then compensate Mr M accordingly.

Our investigator felt that the £200 Royal London had offered Mr M for the distress and inconvenience it’d caused was fair and reasonable.

After receiving her view, Mr M asked our investigator a number of questions about the impact of her recommended compensation on his income tax situation. He also asked her some questions about how the proposed financial redress would work. I agree with everything she told him and I won’t repeat it here.

Mr M said he hadn’t cashed the £200 compensation cheque Royal London had sent him.

Mr M didn’t agree with our investigator. He felt that Royal London should assess any compensation against the annuity he’d told it he wanted to proceed with through his IFA on 29 September 2023. As detailed earlier, this would’ve been with provider A and would’ve provided the following benefits:

A 25% tax-free cash lump sum of £54,634.55.

A single life annual annuity totalling £6,257.52

A 50% joint life annual annuity of £6,372.96.

Mr M said that provider A’s annuity rates in September 2023 had been much higher than those offered by provider B at that time. He said he’d wanted to accept the rates offered in September 2023, and had told Royal London this. He therefore felt that Royal London should be comparing everything against provider A’s figures from August 2023, rather than provider B’s figures.

As agreement couldn’t be reached, the complaint has come to me for a review.

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’m going to uphold the complaint. I agree with our investigator, and for the same reasons, that if Royal London had provided Mr M’s IFA with the correct information in its 19 July 2023 email, Mr M would’ve most likely decided to go to the OM at that point, through his IFA. I also agree that but for Royal London’s mistakes, Mr M would’ve received his TFC on 26 August 2023, and then gone on to purchase a 75% joint life annuity with provider B using rates applicable on 27 August 2023. I’ll explain the reasons for my decision.

As I've just noted, if Royal London had provided the correct information to Mr M's IFA on 19 July 2023, I'm satisfied that it's more likely than not that Mr M would've gone to the OM at that point. Therefore none of the other service issues that delayed his actual eventual annuity purchase would've happened, as Mr M would've most likely transferred his funds away from Royal London by 26 August 2023.

I acknowledge that Mr M feels that Royal London should assess any compensation against the annuity he would've received from provider A in August 2023, given he'd accepted an annuity with that provider on 29 September 2023, rather than with provider B. He feels that provider A would've had better annuity rates than provider B in August 2023. But I can't reasonably agree.

I say this because the evidence shows that Mr M wanted a joint life annuity. He asked his IFA to repeatedly ask Royal London to provide quotes for a joint life annuity. And ended up buying an annuity with a 75% spouse's pension. Therefore, while I acknowledge that Mr M said he would've accepted the September 2023 quote, which was for a single life annual annuity totalling £6,257.52 and a 50% joint life annual annuity of £6,372.96, it's clear from the evidence that he actually wanted to purchase a joint life annuity with all of his funds.

Even if I'm wrong and Mr M would've purchased the annuities Royal London had set out in its September 2023 quote, I'm not persuaded that provider A's annuity rates for the 75% joint life annuity Mr M went on to buy would've been better than provider B's rates on the same basis in August 2023. I say this because the annuity rates for the two different bases used for the September 2023 annuity quote Mr M said he wanted to accept would've been considerably better than equivalent rates on the same date for a 75% joint life pension. More simply, if Mr M had gone on to buy annuities on the same bases as the provider A September 2023 quote with provider B in January 2024, he would've received a significantly higher starting pension than the £12,156 each year he is now receiving.

Overall, while I'm satisfied that Mr M's annuity should've started sooner than it did, and been based on the rates then applicable, and that he should've received his TFC earlier, I'm not persuaded that the annuity that Mr M should now be receiving should be based on provider A's annuity rates from August 2023. Instead, I agree with our investigator that the fairest way to put things right here is to assess any loss against the annuity Mr M would've received from provider B in August 2023.

I've also considered whether the £200 compensation Royal London has offered Mr M in respect of the distress and inconvenience caused is fair. Given that the steps I require Royal London to take will put Mr M back to the financial position he should now be in, I think that it is.

Putting things right

When considering fair compensation our aim is to put a consumer back into the same position they would've been, or as close to that as possible, had the error not occurred.

I'm satisfied that if Royal London hadn't provided Mr M's IFA with incorrect information in July 2023, Mr M may have received a higher annuity rate than he actually secured with provider B. If correct information had been provided in July 2023, I consider that Mr M's funds would've been transferred to provider B by 26 August 2023. And that a 75% joint life level annuity with a ten-year guarantee would've been purchased - after taking TFC – by 30 August 2023. Royal London must therefore calculate the rate of annuity that Mr M would've received from provider B if it'd received the funds to purchase the annuity on 27 August 2023, the day after it should've been transferred. It should then use this rate to calculate the annuity income that Mr M should've been receiving since September 2023, based on Mr M's fund value on 26 August 2023.

But for the incorrect information, I consider Mr M would've received four more monthly income payments than he actually received - in September 2023, October 2023, November 2023 and December 2023.

Mr M might've received a higher TFC payment if his funds had been transferred on 26 August 2023. So Royal London must calculate the amount of TFC Mr M would've received if it'd been paid to him on 30 August 2023. He would've also received his TFC payment sooner - on 30 August 2023 rather than 16 January 2024.

Once it has calculated the annuity income Mr M should've been receiving and the amount of TFC he would've received on 30 August 2023, Royal London must use that when considering past losses, as follows:

A) The accumulated total of the net payments, including TFC, which Mr M should've received from the annuity since September 2023 to the date of my final decision, with interest added to each payment at 8% per year simple from the date it was due to the date of my final decision.

B) The accumulated total of the net payments, including TFC, which Mr M actually received from his annuity to the date of my final decision, with interest added to each payment at 8% per year simple from the date it was due to the date of my final decision.

C) If A - B shows a past loss has been incurred, compensation should be paid directly as a lump sum after making a notional reduction to allow for income tax that would otherwise have been paid on taxable income and interest payments at Mr M's likely rate of income tax, presumed to be 20%.

In respect of the future loss that may be incurred Royal London must consider:

D) The notional gross pension per year which Mr M should've been receiving from the date of my final decision onwards.

E) The actual gross pension per year Mr M currently will receive from the date of my final decision onwards.

F) Future Gross Loss per year = D – E. If the answer is negative, there's a future gain and no redress is payable.

G) Royal London must then work out what it would cost to replace any lost income in F) by buying an annuity on the open market with these features. It will need to refer to published annuity rate tables and get a quote from a competitive provider.

H) The purchase price of the annuity found in G) is Mr M's gross future loss. This should be paid directly to him as a lump sum after making a notional reduction to allow for income tax that would otherwise have been paid at his likely rate on the income in F – presumed to be 20%.

I think it's fair and reasonable to offset any past losses and future gains or vice versa. That may mean that there is no overall loss or that a residual loss is payable however offsetting can only be done after tax adjustments have been made as outlined above.

If payment of compensation is not made within 28 days of Royal London receiving Mr M's acceptance of my final decision, interest must be added to the compensation at the rate of

8% per year simple from the date of my final decision to the date of payment.

Income tax may be payable on any interest paid. If Royal London deducts income tax from the interest, it should tell Mr M how much has been taken off. Royal London should give Mr M a tax deduction certificate in respect of interest if he asks for one, so he can reclaim the tax on interest from HMRC if appropriate.

Royal London must also pay Mr M £200 for the distress and inconvenience caused by the delay.

My final decision

For the reasons explained above, I uphold Mr M's complaint. I require The Royal London Mutual Insurance Society Limited to take the steps detailed in the "Putting things right" section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 2 January 2025.

Jo Occleshaw
Ombudsman