

The complaint

Mr M and Mr S complain as trustees of the S Trust about the way ReAssure Limited has administered the pay out of a bond (which was originally taken out by their mother, Mrs S).

What happened

In February 1998, Mrs S took out a Skandia Life (now ReAssure) PETA Bond that consisted of two elements, a term assurance element and a pure endowment element. The bond was sold through an independent financial adviser. The bond was put into trust, with the trustees being Mrs S, and her sons Mr M and Mr S.

The bond received a single premium of approximately £50,500 covering both parts of the product. The term assurance element had a death benefit of £50,505.05 payable on death before age 110 of the life assured. The endowment element to the bond had a death benefit of £50.51 plus the value of any units of the bonus account at death. It also had a maturity benefit of the value of the units in the underlying account plus the units in the bonus account, but this was only payable on survival of the life assured to age 105.

The bond had the option to make withdrawals. These could be taken from the declared annual bonuses and paid as a distribution each year. Mrs S received annual payments from the bond for a number of years.

In May 2010, Skandia wrote to Mrs S to explain persistently low interest rates were impacting the bonuses on her PETA Bond. Essentially it said the returns had been less than the bonds annual management charge of 1%, and as long as interest rates remained very low, it was unlikely that bondholders would see any bonuses allocated.

Sadly, Mrs S passed away in January 2023. Mr M contacted ReAssure to raise queries about the pay out on the bond. ReAssure responded providing information about how the investment works. Following this, in March 2023, Mr M responded to raise concerns about how the endowment element had been explained and the calculation of bonuses. He said the issue may well be that the bond was mis-sold originally.

Mr M, (he says on the advice of ReAssure), submitted a claim to the FSCS, as the adviser who sold the bond originally was no longer trading. He requested information about the bond from ReAssure to help him with his claim. As there were delays in ReAssure providing the information he raised a complaint.

In July 2023, ReAssure responded. It apologised for the service provided and offered £500 in compensation to Mr M for the error and the inconvenience caused.

Mr M continued to seek further clarification from ReAssure, but remained unhappy with the way it handled his queries, so raised a further complaint.

In January 2024, ReAssure provided a further response. In summary it said:

- No bonus payments have been paid out on this type of product since 2010 and referred to the May 2010 letter it sent. It explained this was due to persistently low

interest rates affecting investments linked to the PETA Bonds.

- Prior to 2010, a total of £16,857.21 was paid out to Mrs S in bonus payments.
- The death benefit, due is £50,555.56, which will be paid when the payment release forms are received.
- There is a 1% annual management charge, the cost of this is covered by deducting it from the annual bonus, with the excess cost being deducted from the underlying account.
- The value in the underlying account would only be paid out in the event of the bondholder reaching age of 105 (the maturity date) – and if this benefit was not paid any excess would remain with the provider.

In March 2024, ReAssure agreed to pay out the term assurance benefit. This was paid on 7 March 2024 with interest.

As the matter wasn't resolved, the complaint was referred to this service for an independent review.

One of our investigators looked into the complaint. He didn't uphold it. In summary he found ReAssure isn't liable for the advice to take out the bond, just the management of it. He was satisfied this had been done in line with the original product information that has been provided. He noted compensation had been paid for the impact of the service failings by ReAssure, which was fair.

Mr M responded on behalf of the trustees and requested an ombudsman reach a decision. He provided further submissions. He doesn't agree ReAssure has demonstrated it isn't required to pay bonuses that are due on the endowment element of the bond. In summary he said:

- He believes ReAssure has failed to pass on bonuses in multiple years between 2008 and 2023 (which surpassed the 1% fee).
- Prior to 2008 ReAssure distributed some of the bonus, after the bonus pause in 2008 ReAssure declared all bonuses as going into a bonus account that Mrs S would only benefit from if she reached 105, knowing full well this was, from an actuarial perspective, a highly unlikely event. It appears the beneficiary of that element (c.£64,000) is ReAssure.
- This change only happened after 2008, so he believes it demonstrates a change of process/policy instigated by ReAssure against its customers interests.
- He feels there is a need to have an analysis of the bonus declarations from 1998 to 2023 and see how much of the declared bonus gets distributed to the customer and how much effectively goes into a maturity bonus account.
- Having two different "bonus" accounts for allocations is deliberately confusing for customers.
- The transaction data provided by ReAssure shows, every year there was a distribution to the bonus account there was a fund marked as SK Fidelity Managed, yet this fund is not recorded after 2010. This coincides when bonuses stopped being paid, so he questions what happened to this fund.
- Attempting to do the analysis has been traumatic, and forced deliberately by ReAssure to try and kill the complaint.

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.

It is clear Mr M has very strong feelings about how ReAssure has handled his queries about the management of the investment and he has raised several points. I've read and considered all of the concerns he has raised on behalf of the trust.

However, I hope he won't take the fact my findings focus on what I consider to be the central issues, and that they're expressed in less detail, as a discourtesy. The purpose of my decision is not to address every point raised in detail, but to set out my conclusions and reasons for reaching them.

I note the benefits of the term assurance part of the bond have now been paid out with interest added due to the delay in payment. So, I'm satisfied nothing further is due in respect of this element of the bond.

Mr M has made significant submissions about how the bond has been managed – specifically in relation to the allocation of bonuses to the endowment part of the investment. Having reviewed all of the correspondence between the parties and that provided to this service – I'm satisfied the crux of the complaint is whether ReAssure has allocated all of the bonuses it should have to the bonus account on Mrs S's bond in the years preceding 2009.

Firstly, I've looked at the original product literature to establish how the endowment part of the investment was set out. I can see this endowment element involved the premium being invested to achieve growth. The endowment element held an underlying account (effectively holding the value of the investment) and a bonus account (which declared bonuses were added to). There was an option to receive any declared bonuses as income annually (or the bonus funds could be left in the bonus account of the investment). I haven't seen anything to suggest there was a guarantee that bonuses would be added every year. There was a maturity benefit that could be made on this part of the investment equal to the value of the units in the underlying account on survival of the life assured at age 105. There was a death benefit payable on death before 105, but this was only 0.1% of the premium with any bonuses added that had yet to be withdrawn as income, and no benefit would be payable on the remaining units in the underlying account.

The product particulars set out that bonuses are calculated based on the performance of the 'Skandia Bonus Fund' in the previous year. This is a fund that is invested in interest-bearing deposits and high quality fixed-interest products. Once a bonus rate is established, the amount each bond is allocated will depend on the value of the underlying fund of the individual bond. So, while the underlying fund the bond is invested in is selected by the customer, the declaration of bonus rates depends on the performance of a separate fund (the 'Bonus Fund') run by ReAssure (formerly Skandia) - which invests in lower risk deposit-based assets. Due to the type of assets this fund is invested in, prevailing interest rates are critical to whether bonuses will be applied. This means the relative performance of the bond (and its acquired value in the underlying account) isn't directly linked to whether a bonus is declared. The literature also detailed that there would be an annual management charge of 1% per year.

In respect of the specific circumstances of this investment, the above benefits were set out in the policy schedule. Bonuses were paid out as income to Mrs S for a number of years, but from 2010 no bonuses were made available for withdrawal. I've seen a copy of the letter ReAssure sent to Mrs S in May 2010, which said persistently low interest rates are impacting the investment. It went on to explain bonuses would be unlikely to be paid while interest rates remained very low. Indeed, no further bonuses were added to Mrs S's bond after the last bonus applied was in 2009. This meant there was no further benefit due from the endowment when Mrs S passed away, and the underlying account value was not payable to the trust. In making the complaint Mr M's raised concerns as he thinks there were bonuses

due but these went to ReAssure as Mrs S was unlikely to reach age 105. He sees this it as unfair that ReAssure benefitted from the bond's performance and not the customer.

Having considered the available evidence, I'm satisfied ReAssure has managed the investment in line with the original terms set out. This means the payments that have been made are in line with what was expected. In order to uphold the complaint, I would need to find errors by ReAssure meant that bonuses that should have been distributed to the bonus account haven't been. I accept that the bond had features which aren't common with typical investment products. Indeed, ReAssure say this product wasn't widely sold. But this in itself doesn't mean it hasn't been managed correctly.

ReAssure has provided detail of the bonus declarations for all of the years the bond was in force. This shows the earlier years where bonuses were added, but also from 2010 the bonus rates didn't exceed the 1% management charge, meaning nothing was added to the bonus account for withdrawal or accumulated as part of a death benefit. It has also provided the annual statements for each year. Again, these all show that the level of bonus declared from 2010 onwards didn't exceed the 1% annual management charge that was deducted – which meant nothing was added to the bonus account. As mentioned above, due to the type of assets held in the Bonus Fund, prevailing interest rates were critical to whether bonuses would be added. I note the ceasing of bonus payments after 2009, also coincided with falling interest rates in the UK, with the Bank of England base rate remaining below 1% between 2010 and 2022. This correlates with the warning given in May 2010 about the impact of continuing low interest rates on future bonus allocations.

Mr M doesn't accept ReAssure has been open and transparent about the bonus declarations. He has requested that it provides further clarification and/or information to allow him to calculate whether there are funds due on the investment that haven't been paid out. But I haven't found evidence to support that ReAssure has failed to pay further funds from the endowment element of the bond. I appreciate Mr M would like further investigation into the data provided by ReAssure on bonuses – but I don't think this is necessary. I also appreciate he will be disappointed by this, but I need to balance the value of further investigation and the likelihood of reaching a finding that there is unpaid amounts due on the bond. Ultimately, we are an informal service that seeks to resolve disputes between financial businesses and their customers. My role is not to provide a forensic analysis of the data. I'm satisfied that our investigation has gathered sufficient details on how the bond has been managed and the declaration of bonuses to reach a decision. As explained above, I haven't been persuaded the bond has been managed in a way that was contrary to how it was originally described.

I understand why Mr M sees it as unfair that the underlying value of the investment is not being paid out, and instead retained by ReAssure. I also understand his point that from an actuarial perspective, it was a highly unlikely event Mrs S would reach age 105. But this was the design of the product at the outset, and I've not found this is something ReAssure has altered to its advantage since the bond commenced. So, I don't find that an error has been made here. ReAssure didn't recommend the bond to Mrs S, so it's not responsible for the suitability of the investment.

Mr M has raised a point about a fund not appearing on transaction data after 2010. And he has queried whether this is linked to the fact bonuses weren't added after this date. ReAssure has confirmed this situation relates to an enforced fund switch due to the existing fund closing. But I note both funds relate to where the units in the underlying account were invested. The calculation of bonuses is decided on the basis of the performance of the 'Bonus Fund', not the funds selected for the underlying account. So, I haven't found the point raised by Mr M about the fund listed on the transaction data disappearing after 2010, supports a finding that this is linked to bonuses not being applied.

I note ReAssure did pay Mr M £500 in compensation for service failings due to how it dealt with information requests made on behalf of the trust. This did negatively impact the trustees, so I think it was fair for this level of compensation to be paid. I understand the money has already been sent by means of a cheque. While, I appreciate Mr M has found it difficult trying to get all of the answers he wants relating to bonus calculations, I don't think ReAssure needs to pay any further compensation as I haven't found it at fault here (for the reasons described above).

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M and Mr S as trustees to accept or reject my decision before 17 April 2025.

Daniel Little
Ombudsman