DRN-5207032

The complaint

Mr G and the trustees complain Scottish Widows Limited has failed to provide clear information about the charges associated with his Whole of Life policy invested in a with-profits fund. They feel he is being treated unfairly and the responses haven't addressed their concerns.

What happened

Mr G took out his policy many years ago, it is a whole of life policy that provides life cover for his wife. It is invested in a with-profits fund. The policy was assigned to a trust in 1998, with Mr G and his two children as the trustees of the trust.

One of the trustees, Mr C, requested a statement in June 2023, which was provided by Scottish Widows shortly afterwards, setting out the surrender value, sum assured and bonuses awarded.

In August 2023, Mr C requested further information about the benefits and the charges on the policy. After making several inquiries, he was told by Scottish Widows it couldn't provide the individual charges for the policy. As he was not receiving the information he required, Mr C raised a complaint.

Scottish Widows responded to the complaint. In summary it said because of the type of policy (with-profits) held, it couldn't provide the charges information in the format that was requested. It offered £50 in compensation for any distress and inconvenience suffered, but this was declined.

Mr C didn't accept Scottish Widows' response, so he referred the complaint to this service for an independent review. One of our investigators considered the complaint but didn't uphold it. In summary, he said the nature of a with-profits fund is they are less transparent in respect of the costs. He was satisfied Scottish Widows had explained the charging structure as far as it could and didn't find it was holding information back or that the charges on the fund are extreme.

Mr C didn't accept the investigator's findings. In summary he said Scottish Widows should provide an estimate of the Total Expense Ratio. The brochure it sent has no mention of the costs borne by the main fund, only their additional costs, and even these are hard to follow and opaque. He doesn't agree Scottish Widows has demonstrated the charges are fair. He said customers with products that are closed to new business, should still be treated fairly and do not receive less attention than customers who have recently taken out a new product. As no agreement could be reached, the complaint has been 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.

The crux of this complaints relates to Mr C not being satisfied by the information Scottish Widows has provided about charges on the policy. He requires this to allow him to gain an understanding whether the policy is being administered fairly. I acknowledge the frustration at not receiving the level of detail of information that is wanted.

The key point here is that the policy is invested in a with-profits fund. So, it has unique features that mean it isn't as straightforward to provide the type of charges breakdown that is commonly supplied by fund managers, such as annual fund management charges. Indeed, the information Mr C has requested would be straightforward for Scottish Widows to provide for the other funds it manages.

Mr C accepts there is complexity to the management of the with-profits fund this policy is invested in. This is also an older style policy – that has been in-force for over 50 years. I agree this doesn't mean it is acceptable for a firm to provide a lower level of service to investors who hold older products. But I'm also conscious that this can bring challenges because of the features of specific older products. And it can be more difficult to disclose information in the format that can be provided for other newer, open funds and products.

Scottish Widows has highlighted information from its with-profits fund brochure. This has a section regarding charges, which explains:

"Charges for administering policies like yours were set when Scottish Widows demutualised in 2000. At that time they were set at a level to reflect the actual costs of administering policies. Every ten years an independent review considers whether those charges should be adjusted to reflect any exceptional changes in costs incurred by life insurance companies. (The 2010 and 2020 reviews did not increase any charges.) In between these reviews the charges are increased at a fixed inflation rate based on the change in the Retail Prices Index plus 0.75% each year.

Charges for managing investments are also reviewed independently every ten years. Currently, and at least until the next review in 2030, this charge cannot exceed 0.07% of the value of the assets of the with-profits fund each year."

Scottish Widows has also explained due to the number of with-profit policies it is impossible to calculate the charges on an individual policy. Growth (or put another way increases in value) on policies like this are determined by the bonuses that Scottish Widows declare each year. This is decided by its actuaries, and within this decision making the expenses of the fund form part of the reversionary bonus rate which is declared for any given year. These expenses are incurred by all policyholders as a group and are taken into account as part of the bonus declaration. Scottish Widows say this is the reason why it can't estimate expenses (in other words charges) incurred on this individual policy. There aren't explicit charges deducted from the policy.

While Scottish Widows hasn't provided the level of detail Mr C has requested, I don't find this means there must be unfairness. It has given an explanation about how charges are applied to this type of investment and the reason it can't give the explicit information requested. Having considered this, I haven't found reason to think that it is acting unfairly in how the policy is being administered. As referred to above, the specific feature of the with-profits fund means the charges aren't explicit to individual policies. So, despite not receiving everything that was requested, I don't think overall there has been an error leading to unfairness.

I've also considered whether the offer made by Scottish Widows is fair and reasonable compensation in the circumstances. I haven't found Scottish Widows has made significant errors in the way it has attempted to answer the queries raised, but I acknowledge that there were multiple attempts to get an answer before the complaint was referred to this service, and this did cause frustration. I can see Scottish Widows has conceded it could have handled things better and made an offer of compensation. I agree the £50 compensation offered is fair in the circumstances. Mr C has suggested this is a low offer considering the value of the policy. I don’t consider the value of the policy means more compensation should be paid as I don’t consider the impact suffered warrants a higher payment.

My final decision

Scottish Widows Limited has already made an offer to pay £50 to settle the complaint and I think this offer is fair in all the circumstances.

So my decision is that Scottish Widows Limited should (if it hasn’t already) pay £50 in compensation to Mr G and the trustees.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr G and the trustees to accept or reject my decision before 9 January 2025.

Daniel Little
Ombudsman