DRN-5249736

The complaint

Mr J's complaint is about his Flexible Mortgage Individual Savings Account (ISA) he took out in 1999, which was linked to another in his wife's name (Mrs J), and joint protection benefits. Mr J is unhappy with the value of the ISA at the end of the funding term. He believes the reason for this is not simply poor fund performance, but rather because more has been taken to pay for protection benefits than should have been. In settlement of the complaint, Mr J wants to be compensated for the lost value he believes this has caused.

What happened

Toward the end of 1998 Mr and Mrs J applied for a joint Flexible Mortgage Plan to protect and act as the repayment vehicle for their mortgage. This product provided joint life and critical illness cover equal to the amount of their mortgage. Waiver of premium benefit was also attached to the arrangement, which meant that if either Mr or Mrs J were unable work due to long term illness, the monthly premium would be paid for them.

In addition, the application involved two Personal Equity Plans (PEPs) being arranged – one in each of their names because PEPs could not be taken in joint names. As PEPs were replaced by ISAs in April 1999, before the arrangements started, ISAs were set up for Mr and Mrs J. The arrangement had a term of 25 years and a total premium of £310.44 per month. The ISAs were invested equally in the Worldwide Unit Trust and UK Index Unit Trust.

In 2020 the product was transferred from Legal & General to ReAssure. Both businesses provided information about the policy on a regular basis. Legal & General on the overall plan to Mr and Mrs J jointly and ReAssure individually about their half of the plan. The administration of the ISA was transferred to an investment company.

In February 2024 ReAssure wrote to Mr J about his ISA as the insurance element of the plan was approaching its end. It explained that Mr J could chose to take the investment value of the ISA or he could choose to continue with the ISA until he needed its value. A payment release form was enclosed in the event Mr J wanted to cash the ISA in. An equivalent letter was sent to Mrs J.

The policy matured in April 2024 for just under £46,000, which when combined with Mrs J's ISA, equated slightly more than 70% of the target value.

Mr J began asking questions of ReAssure, following receipt of the February 2024 letter, about the nature of the ISA product. ReAssure provided several responses in May and June 2024. Mr J subsequently complained that ReAssure had administered the product incorrectly and so the amount paid out had been incorrect.

ReAssure responded to the complaint on 5 July 2024. ReAssure confirmed that there were no increases to the charges when the policy was transferred to it, and the death benefit had remained the same as it was when the policy was taken out. It also confirmed that the cost of life cover increased with age.

Mr J was not satisfied with the response he received. As such, he referred the complaint to this Service. One of our Investigators considered the complaint, but she did not recommend that it be upheld. Mr J did not accept the Investigator's conclusions.

As agreement couldn't be reached, it was decided that the complaint should be passed to an Ombudsman for consideration.

Mr J raised concern that ReAssure was unable to provide a copy of the original policy documents. He highlighted that no explanation had been given for why the cost of the protection benefits increased considerably in 2010.

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.

Mr J has said that alongside the premium for the ReAssure plan, a second payment was being collected for a payment protection insurance (PPI) policy. He believes this is linked to the plan. While it is possible the payment was linked to the mortgage arrangements, or some other debt, standalone PPI was not sold alongside investment and protection products such as those Mr and Mrs J took out in 1998.

As I have detailed above, the policy did include waiver of premium benefit, which would have paid the plan premium in the event of either Mr or Mrs J suffering an illness that meant they were unable to work, in a similar way to PPI. However, that is a benefit that is part of the protection aspect of the plan and paid for as part of the deduction from the premium for the protection benefits. If Mr J wishes to pursue a complaint about whatever policy this direct debit is associated with, he will need to make that complaint to the business collecting the money.

I note that Mr J has raised the fact that ReAssure doesn't have the original policy document. While it would be helpful if the original documents were available, either from ReAssure or Mr J, to whom the originals would have been sent, it does not mean that the complaint cannot be considered. We have the terms and conditions and the original illustration that was provided to Mr and Mrs J. Furthermore, life assurance companies do not have to keep original documents. They are required to keep records, but those records can be in an electronic format.

I have considered what Mr J has said about the ISA value and the deductions made from the monthly premium for protection benefits. Having done so, I am not upholding this complaint.

During the term of the plan the premiums Mr and Mrs J were paying was split between them and went to pay for the protection benefits he and Mrs J had asked for under the plan and the remainder was invested. The unit cost for the protection benefits would be calculated based on actuarial tables that effectively determine the likelihood of a claim. The unit charge for the benefit would then be applied to the amount of benefit that needed to be paid for – the difference between the amount the policy would pay out for a claim and the value of the ISA.

At the time the policy was set up, it was assumed the cost of the benefits would decrease, as the policy value grew, even taking into account that Mr J would be getting older throughout the term. Unfortunately, when there is poor investment performance, especially in the early years of a policy, the benefit costs will be higher than anticipated and can have a significant impact on the overall growth of the policy.

The industry was aware around 2000 that investment returns were falling far short of what had been anticipated when plans like Mr and Mrs J's had been sold. Policy reviews were built into Mr and Mrs J's plan to establish if it was on track to achieve its target value at the end of the term. The first of these was due after ten years and periodically thereafter. I haven't seen the results of the earlier reviews as they would have been done before ReAssure was ministering the plan. However, it completed such reviews every year it administered the plan and told Mr J that his ISA wouldn't reach its target value.

It is unfortunate that Mr J's ISA didn't reach the value it was hoped for at the time it was sold. However, I note that the illustration he and Mrs J were given at the time of the sale showed that this was a possibility. Indeed, at the lower growth rate used on the illustration the combined value of the two ISAs was only projected to reach just over £66,000, which is considerably lower than the amount that was produced at the end of the term.

In relation to the performance of the unit trusts the plan invested into, I would explain that a very large number of decisions over a 25-year period relating to investments, costs and charges have been made by the investment managers at ReAssure and Legal & General before them. Those decisions were made in a regulated environment with layers of governance, independent scrutiny (such as by actuaries and the regulator) and oversight. Some of the factors influencing returns were outside those businesses' control. However, even if I were to try and "drill down" to individual decisions it is very unlikely that I could point to an individual decision or set of decisions which were, without using hindsight, so manifestly bad or wrong that redress should be paid. I am afraid the simple fact here is that Mr J paid into an investment product which performed badly (or not as well as hoped). I have seen no evidence that ReAssure incorrectly calculated the amount Mr J was entitled to at the end of the term. While I sympathise with the situation he and Mrs J found themselves in, I can't ask ReAssure to pay him anything further.

Mr J has asked why the cost of the benefits rose significantly in 2010. Mortality and morbidity rates (the actuarial calculations detailed above) increased significantly around this time across the industry. This was influenced by the consequences of the financial crisis in 2008. Not long after the government implemented austerity measures which involved cuts to public spending, including welfare benefits and healthcare funding. This led to negative impacts on public health and wellbeing, which was then reflected in the cost of protection benefits.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr J to accept or reject my decision before 22 August 2025.

Derry Baxter
Ombudsman