

The complaint

Mr T complains that The Royal London Mutual Insurance Society Limited (Royal London) delayed his annuity application causing him losses as the value of his pension fund fell and annuity rates reduced. He wants compensation for his losses.

What happened

Mr T had a deferred annuity Retirement Annuity Contract (the plan) with Royal London. Due to some health concerns Mr T wanted to take his retirement benefits. His plan provided for a guaranteed annuity to which bonuses had been added over the years. As the plan provided for a pension income it didn't have a fund value. Instead, Royal London calculated a "*Notional Fund Value*" which it said reflected the current value of the plan. This will broadly consider the purchase cost of buying an annuity to pay the guaranteed benefits, using various assumptions updated from time to time.

Mr T spoke with Royal London's non-advisory annuity service called Annuity Bureau (AB) on 17 July 2023. To explore whether due to his health issues and enhanced annuity rate from another provider would pay more income than the guaranteed annuity available under the plan itself. It appears following this call a valuation of the plan was requested by AB from Royal London's head office (RLHO) and two valuations dated 15 July 2023 were prepared and posted to Mr T on 28 July 2023. These were, £93,697.53 described as the "*Open market value*" and a higher value of £130,297.83 based on a selected retirement date (the SRD value) of 15 July 2023. The SRD value was only available if an annuity was arranged through AB. Royal London has said the values quoted weren't guaranteed but has subsequently confirmed that the SRD value was valid for two months. So, until 15 September 2023.

AB arranged a follow up call for 26 July 2023 and following this health forms were sent to Mr T to complete and return, with a further call arranged for 11 August 2023. Mr T, who is hearing impaired, missed this call, and a further call was then arranged for 1 September 2023. On this call AB said it was still awaiting some updated quotes from RLHO, which had been chased. But it said it could continue with these to follow. AB said the value of Mr T's plan was £130,297.83 and that this was the "*most up to date value they have*", referring to RLHO. Mr T asked if this was current, and AB said this was the SRD valuation from 15 July 2023. AB confirmed the benefits available from Royal London would be tax free cash of £32,574.45 and an annual income of £3,830. Mr T then queries the fund value if he transferred to another provider and is told this would be £93,697.53 unless this was arranged by AB where the higher value would of £130,297.80 would be used.

It was then established that based on Mr T's requirements that Aviva offered the best annuity rate with an annual income of £7,030.80 after the payment of around £32,574.45 tax-free cash. AB sent Aviva's illustration and application forms to Mr T on 5 September 2023 which he completed and returned with AB receiving them on 8 September 2023. Mr T emailed AB asking it to confirm receipt and it confirmed this by email. When Mr T didn't hear any further from AB, he called it on 6 October 2023. AB said it was awaiting an SRD value from RLHO and his application hadn't been submitted to Aviva. Mr T wasn't happy about this and emailed the AB staff member he'd dealt with previously saying he'd called earlier and

been cut off after 20 minutes without a call back. And on calling back was put on hold for an hour and 11 minutes before being cut off again. He requested a call back. AB emailed to say the new value was expected in “5-7 working days”.

RLHO provided new quotes to AB on 1 November 2023, and it called Mr T about this on 7 November 2023. Mr T asked for the plan value, but AB said this hadn't been provided. Mr T complained about the delays, the lack of updates and the fall in income available. The plan value was subsequently confirmed on 6 December 2023, at £91,902.64 providing tax free cash of £22,975.66 and the best annuity income available had fallen to £4,845, now from another provider called Just. Mr T said he didn't want to take his benefits until his complaint was considered.

Royal London issued a final response to Mr T's complaint on 12 December 2023. It apologised for the poor service and offered £200 compensation for this. But it said plan values weren't guaranteed and could reduce. It said AB shouldn't have sent the quotes to Mr T on 5 September 2023 as there was no time to process the application before 15 September 2023, when the quote guarantee expired. Mr T didn't accept the compensation offer and raised further queries, asking for copies of all records and telephone recordings. Royal London emailed Mr T on 15 March 2024 saying the reduction in the fund value had been due to a “*removal of the Pricing Fund from these types of pensions effective from 1 October 2023*”. It said the value quoted on 15 July 2023 had been valid for two months and funds would need to be paid out by 15 September 2023 and there had been no time to do this as it typically took “*between 4-6 weeks to complete*”.

Mr T referred his complaint to our service and our investigator looked into it, but she didn't uphold it.

Our investigator said by the time Mr T had returned the completed application there was no time to process it before the guarantee expired. She said the documents sent to him made it clear fund values weren't guaranteed and could fall. But she said Royal London had caused delays in not requesting a new fund value from its head office until 6 October 2023. She said it should have made Mr T aware that a new quote would be needed during the calls that took place in August and September 2023 but had failed to do so. But she didn't think Mr T had suffered a financial loss and the £200 Royal London had already offered in compensation was fair in the circumstances.

Mr T didn't agree. He said the only deadline Royal London had given was 15 September 2023 and he'd done everything he was asked to do before then. Mr T said he considered the application he'd signed to be legally binding. Our investigator said the application form wasn't a contract, but that Mr T should have been provided with clearer information. But she said it had been made clear the value could reduce. Mr T said the four-to-six-week timeframe mentioned was to set up everything after the application was actioned by Royal London. He said due to his deteriorating health he'd now had no option but to take his benefits at a much lower level. With tax free cash of £23,813.95 and an annual income of £5,278.44 from a quote guaranteed until 29 July 2024.

But Mr T said AB still hadn't provided him with the documentation to proceed with this and it was only 11 days before this quote also expired. Despite this Mr T said AB had confirmed by email that it would process his application within 48 hours, with a further four to six weeks to complete everything and the income payments to start. He said the revised SRD valuation AB requested on 6 October 2023 was actually dated 1 October 2023 when it was produced but should have been dated 11 September 2023. He said there were significant financial implications for him, causing a great deal of stress and AB had consistently failed to return his calls or emails. Mr T said he subsequently submitted his application and Royal London did process it within 48 hours.

Our investigator said whilst Royal London had processed the application promptly it was still advising it could take up to eight weeks for everything to be set up. Mr T made some further points about what he understood the annuity application process to be and at what point things became legally binding, which he considered to be once Royal London had processed the application.

As Mr T doesn't agree it has come to me to decide.

My provisional decision

I issued my provision decision on; 18 December 2024, I explained the reasons why I was planning to the complaint. I said:

I've considered all the available evidence and arguments to decide (provisionally) what's fair and reasonable in the circumstances of this complaint. Having done so, I'm planning to uphold the complaint.

I think Mr T's complaint centres around two issues, the loss of the fund value dated 15 July 2023 and the potential reduction in the annuity rate available from Aviva. I think Royal London caused delays at all stages of the process which is why these weren't secured. Because of that I don't think Mr T has been treated fairly.

When reviewing the evidence and Royal London's confusing explanations of what had happened it wasn't clear to me what service AB was actually providing to Mr T. It seemed to have liaised with other parts of Royal London and compounded delays. I asked it a number of questions about this and for a copy of AB's terms and conditions. It said,

"We do not have anything like this to provide. We have a contract with Hub Financial Services as a third party provider who carry out a search of the open market and administer our annuity process".

According to the Aviva annuity quotation sent to Mr T, Royal London was to be paid nearly £3,000 in commission "For arranging your plan". It's typically the role of adviser or annuity broker to smooth this process and manage the pension providers in return for their commission. AB does seem to have managed some processes within RLHO and assisted Mr T in selecting an annuity profile meeting his requirements. And then identified the best rate from its panel of annuity providers, in this case Aviva. I asked AB about the delays between the various calls with Mr T taking place and it said these were scheduled for mutual availability. But the evidence shows that during this time further illustrations were awaited from RLHO office, and I think it's likely these delays prevented the calls from being arranged more promptly, to Mr T's detriment.

Annuity illustrations are usually guaranteed for a number of weeks, to allow time for the consumer to complete the applications and these to be submitted. The annuity provider then requests the existing pension plan sends the funds, which might then be revalued. Once the funds are received the annuity rate will become fixed at either the rate originally offered or at a new rate if the original quotation has expired. So, signing and submitting the application itself doesn't form a binding contract as Mr T has said. But I think it's reasonable that any broker involved needs to be mindful of any deadlines applying to either fund values or annuity guarantee dates.

In addition to causing delays, I think AB and RLHO failed to keep Mr T adequately informed and updated. This is particularly the case in respect of the valuations provided dated 15 July 2023. The notes regarding this say that this value isn't guaranteed, but in fact it was until 15

September 2023, after which it would need to be recalculated. But Royal London says this information wasn't shared with Mr T, to "manage expectations", which I don't think is reasonable in the circumstances. From what Royal London has said both the Aviva annuity illustration and the SRD value expired on 15 September 2023, with the latter being particularly important to Mr T.

Mr T has consistently referred to being told the key date was 15 September 2023, and that he did everything he was asked to do promptly, and I think the evidence shows that he did. But it seems that delays occurred from outset, as it was nearly two weeks before the valuations dated 15 July 2023 were sent to Mr T. Without this, the subsequent delays that followed, and the apparent failure to fairly manage the guarantee dates applying, I think it is likely the Aviva annuity rate and fund value quoted on 15 July 2023, would have been secured.

Mr T was "triaged" by AB on 26 July 2023 to establish his benefit preferences. Annuity quotes from RLHO were requested, and a call was arranged for 15 August 2023. Mr T missed this, but I don't think that changed anything because the quotes needed from RLHO weren't available. They still weren't all available on 1 September 2023. But an annuity with Aviva was proposed and accepted by Mr T and AB issued the necessary applications for him to complete on 5 September 2023, which it says was a reasonable timeframe, but given the deadlines applying I disagree. Mr T promptly returned the application after which AB appears to have done nothing for several days before deciding it was too late to proceed, but without informing Mr T, which is clearly unreasonable. So, it seems to me the primary reason 15 September 2023 valuation couldn't be secured was due to delays caused by Royal London either at RLHO or within AB.

Even allowing for these initial delays it isn't certain that 15 September 2023 deadline would have been missed had AB processed the application when it received it. Royal London has confirmed had Aviva requested the funds by 15 September 2023 the 15 July 2023 valuation would have stood. Applications and payment requests are usually made electronically. It wouldn't be unusual for a provider like Aviva to request funds within two to three days of receiving the application. And it is quite normal practice for brokers to request that cases are escalated where deadlines are close. So, had the application been processed promptly it is possible that Aviva would have requested the transfer before 15 September 2023, securing the guaranteed fund value. Even if the Aviva annuity rate itself may have been lost as funds wouldn't be received from Royal London until later than that.

Royal London compounded these failings by not advising Mr T it wasn't doing anything with his application until he chased it three weeks later and further failing to request any new valuation for nearly a month. This valuation then seems to have taken around two months to be made available to Mr T, not the five to seven working days advised in October 2023. No explanation for these delays has been provided and I think the distress and inconvenience this caused Mr T was significant.

Further confusion has been caused by the two fund values quoted by Royal London, being the open market value and selected retirement date (SRD) value only available if AB was used. Royal London says the SRD value quoted on 15 July 2023 included a "Pricing Fund" additional sum. And the subsequent significant reduction in value followed the removal of the "pricing fund" from 1 October 2023. This led directly to a reduction in Mr T's tax-free cash and annuity income. I think Royal London took too long to provide the valuations and guaranteed quotes requested, and as part of Royal London, AB knew or should have known that the fund value quoted, despite references that this could fluctuate, was effectively guaranteed until the 15 September 2023.

AB might not have known that a change to the formula used to set these values was being introduced from 1 October 2023. But it should have known a new valuation was likely to be needed when it still didn't have all the quotes from Royal London by 1 September 2023. AB says it had chased these two days before, but I think it should have either requested a new SRD valuation then or if not prioritised Mr T's application to meet the existing deadline. I think it's reasonable that any new valuation should have been completed before any change in the basis of calculation and guaranteed until at least then. But if it hadn't been for the unreasonable delays, I think the valuation fixed until 15 September 2023 would have been secured.

So, I don't think Royal London has treated Mr T fairly. As he has said he complied with all its requirements promptly. I think it's more likely than not that the valuations to 15 September 2023 could have been secured but for these various delays and it appears Mr T has suffered losses as a consequence. I also think he has been caused significant distress and inconvenience over an extended period of time due to these multiple failures and delays and it's fair that he be compensated for that.

Putting things right

I said my aim in awarding compensation was to put Mr T as closely back to the position he should have been in but for the errors made. I said Royal London it should calculate what tax free cash and income would have been paid if the SRD valuation dated 15 July 2023 had been secured and the annuity put in place by 1 October 2023 compared to what Mr T has actually received and if there was loss, then to pay this to him.

That Royal London should seek to amend the annuity actually purchased with Just to provide the higher income level going forward, or if this was not possible to calculate the cost of buying an annuity to meet the shortfall and to pay this to Mr T as a lump sum.

And that Royal London should pay Mr T a total of £400 in compensation for the distress and inconvenience he's been caused.

I asked both parties to send me any further information or comments they would like me to consider.

Response to provisional decision

Mr T accepted my provisional decision.

Royal London did not accept my provisional decision. It didn't agree "*the claim could have been finalised by 15/09/2023*", meaning the higher SRD value wouldn't have been secured. It said Mr T had missed an appointment which had contributed to the application form not being received by it until 8 September 2023. It said due to an outside provider being involved it clearly quoted "*4-6 weeks after submission to complete the application*".

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've decided to uphold the complaint.

I think Royal London, despite knowing the significance of the deadlines involved, made errors, and caused delays at all stages of the process and failed to treat Mr T fairly. To seek

to blame Mr T for contributory delays when he missed it's call on 11 August 2023 is disingenuous, given the numerous delays it caused. At that point Royal London wasn't ready to proceed and it appears to have scheduled meetings around when it thought other parts of the organisation might have completed tasks rather than focusing on the key dates and Mr T's interests.

Again, as I set out in the provisional decision it wasn't necessary for the "*claim to have been finalised*" by 15 September 2023, only for Aviva to have requested the funds from Royal London by then for the higher 15 July 2023 SRD value to have been secured. Nor does seeking to blame Mr T for contributing to delays address the continual failure to progress matters, to keep him informed and treat him fairly after he promptly returned the application forms it had sent him. Royal London's failure to deal with all matters efficiently ensured the valuation deadline would be missed whilst it continued to assure Mr T that it was the most up to date valuation available. So, I don't think Royal London has treated Mr T fairly or reasonably and I uphold his complaint. If Mr T has suffered losses as a result of Royal London's errors and delays, it is fair that he be compensated.

Putting things right

My aim in awarding compensation is to put Mr T as closely back into the position he should have been in but for the errors made.

But for the delays and errors made I think Mr T would have obtained the SRD valuation dated 15 July 2023 and his annuity would have been in place with Aviva with a commencement date of 1 October 2023.

Royal London should calculate the difference between the tax-free cash and net of income tax annuity payments Mr T should have received since then to what he has actually received. Mr T has confirmed he is a basic rate taxpayer. If this calculation this shows a loss Royal London should pay this as a lump sum to Mr T plus interest at 8% per year simple from 1 October 2023 until the date it makes settlement.

If Royal London is unable to amend the annuity subsequently arranged with Just to increase the income to what would have been available from Aviva from 1 October 2023, it must calculate the purchase price needed to by an annuity equal to the difference between the amount currently paid and the correct amount.

That amount should be paid to Mr T as a lump sum minus a deduction equivalent to his income tax rate. Any reduction for tax will be notional to ensure the right amount of compensation is paid, and Mr T won't be able to claim anything back from HMRC.

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

Royal London must provide Mr T with a simple calculation of how it has worked out the figures.

Royal London must pay Mr T a total of £400 in compensation for the distress and inconvenience he's been caused, any payment already made to Mr T in respect of this can be allowed for.

My final decision

For the reasons I've given above and in my provisional decision, my final decision is that I uphold this complaint against The Royal London Mutual Insurance Society Limited.

I direct The Royal London Mutual Insurance Society Limited to undertake the calculations set out above and pay any compensation due to Mr T.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 28 February 2025.

Nigel Bracken
Ombudsman