DRN-5403971

The complaint

Ms N's complaint is about the maturity value of a mortgage endowment policy she had with Royal London Mutual Insurance Society Limited. She considers that it was too low, given how much the stock market and the individual funds the policy was invested in grew over the term. In addition, Ms N is unhappy that the maturity value was not paid out on time, due to Royal London considering a claim under the critical illness cover. She has questioned that despite the endowment policy being an investment, and the critical illness being separate insurance cover, Royal London said she could only receive a payout under one or the other.

What happened

Ms N took out her mortgage endowment policy with Abbey National Life in 1998, which was later transferred to Royal London. The policy provided her with life cover of £39,364 and critical illness cover of £86,601. It also aimed to accumulate a lump sum of £39,364 over the term of 25 years, but this was not guaranteed. The policy was invested equally in two funds: a with-profits fund and a managed fund.

The policy matured on 12 July 2023 with a value of £28,539.20. Ms N complained in December 2023 that the maturity value had not been paid to her. The maturity was paid in March 2024 and Royal London paid an additional £73.74 late payment interest.

Ms N complained to Royal London. It responded in a letter of 17 January 2024, but did not uphold the complaint. It explained that while it was considering a claim under the critical illness cover, it couldn't pay out the maturity value of the policy.

Ms N contacted this Service and asked us to consider her complaint. We explained to Royal London that Ms N also had concerns about the amount of the maturity value, given how much the stock market and the funds the policy was invested in had grown over the term. Royal London provided us with an explanation regarding how the value of policies invested in the with-profits fund grew to be provided to Ms N.

One of our Investigators considered the complaint, but he didn't recommend that it be upheld. He highlighted to Ms N that while the growth of the funds the policy invested in was a significant factor, the value also took into account the costs and charges associated with the funds, the policy itself and the benefits the policy provided. He also confirmed that investments have risks associated with them and that meant that there was no guarantee that Ms N's policy would perform as had been anticipated at the time of the sale.

Ms N didn't accept the Investigator's conclusions. She said that she hadn't received the policy provisions the Investigator had referred to. She also said that what she had bought was an investment product and she had not been told that there were charges deducted from the investment. She considered that the policy was a scam and not really an investment, and so Royal London had breached common law because it had not acted reasonably. She asked that the complaint be referred to an Ombudsman.

I issued a provisional decision on 26 February 2025, in which I set out my conclusions and reasons for reaching them. Below is an excerpt.

'*I would firstly confirm that Royal London did not sell Ms N her policy and so it is not responsible if Ms N was given any incorrect information about how the policy works at the time of the sale. Responsibility for the sale would remain with Ms N's lender. I would also confirm that it was the selling agent's responsibility to ensure that Ms N understood how the policy worked, including the fact that there were costs associated with it and its benefits.*

I note that Ms N has said she didn't receive the policy provisions when she took out her policy. I would confirm that this document would have been sent to Ms N after she spoke to the financial adviser at her lender – it would have been provided after her application had been accepted and sent to her along with the policy document. It is a standard process throughout the industry, and it is very unlikely that Ms N would not have received the document. That said, it is not something that Ms N could have relied on when she made her decision to accept the advice from her lender and apply for the policy. It is also generally accepted that most consumers don't read the document at the time their policy is set up and will only do so if they have a specific reason to, later in the life of the policy.

I would at this stage confirm to Ms N that the life and critical illness cover form part of the endowment policy – indeed it is not possible to have an endowment policy that does not have life cover incorporated into it. So the policy would only pay out on the earlier of one of three things occurring – a valid life cover claim being made, a valid critical illness claim being made or if the policy was cashed in at either surrender or maturity.

During the term of the policy the premiums Ms N paid were invested in the two funds she had selected. From whatever value the policy held within the funds, the cost of managing the funds was deducted, as was the cost of managing the policy itself. In addition, a charge would be made for the benefits linked to the policy. The unit cost for the benefits would be calculated based on actuarial tables that effectively determine the likelihood of a claim. The 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 policy.

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 Ms N was 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 policies like Ms N's had been sold. As such, the regulator decided that mortgage endowment policyholders should be sent regular reviews to let them know whether it was thought likely that their policy would repay their mortgage, so that if it was not expected to, they could take action early to deal with any shortfall that might happen. I note that Ms N was sent such letters, telling her from 2003 that there was a high risk that her policy wouldn't pay out its target value.

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 Royal London. 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 its 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 Ms N invested in an investment product which performed badly (or not as well as hoped). I have seen no evidence that Royal London didn't *pay Ms N the amount she was entitled to at maturity and, while I sympathise with the situation she has found herself in, I can't ask it to pay her anything further.*'

Royal London accepted my provisional decision.

Ms N disagreed with my conclusions. Ms N said that the central issue underlying her complaint was how a policy could perform so badly when the funds it invested in had performed so well over its term. She said that my provisional decision had not adequately addressed that question. Ms N provided a mathematical analysis of the policy that she had completed, which she considered evidenced that she should have been paid more.

Ms N also said that Royal London should have charged her a constant amount for the cost of the protection benefits attached to the policy. She also highlighted that she was not told about how her premiums were allocated between investment and insurance components, which she believed was a regulatory obligation. In summary, Ms N said that Royal London should not be permitted to benefit from undisclosed insurance cost increases that significantly eroded her investment returns. She also said that the maturity value of her policy was not a case of poor investment performance, but a case of Royal London misappropriating her gains through undisclosed and exorbitant fees and charges.

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.

I have noted Ms N's comments about the charges and what she was told about them at the time of the sale. Also her comments on what was being charged thereafter, and how that related to what had been anticipated at the time the premium was set. I would confirm that when Ms N's policy was arranged, the information that was required to be given about charges was very different to what the current rules and guidance now requires. She would not have been given monetary amounts for the charges, other than possibly the monthly plan charge. All that was required at the time was that she was made aware that there were charges for the benefits and the costs associated with providing and maintaining the policy. It was not until 2018 that a product provider was required to provide its customer with annual information about the monetary cost of the charges being applied to a policy.

Ms N has quoted from some decisions issued by The Pensions Ombudsman (TPO) regarding substantial and unexpected shortfalls in policies. I can understand why Ms N has focussed on these decisions, however, the shortfall in her policy was not an unexplained or unexpected shortfall. The shortfall has been explained – the fund performance that was required year on year from the inception of the policy in 1998 has not been met, which has meant the policy has not performed as expected. While I note that Ms N has produced a mathematical analysis of the policy and funds, in the context of the TPO decisions she has quoted, such an analysis would need to be completed by an independent, suitably qualified expert.

As for Ms N's comments on how she thinks the endowment policy should have worked, quite simply that is not how the policy did work. At the time the policy was sold, all endowment policies worked the same - a premium was paid and invested and costs were deducted as and when needed to pay for the policy and its benefits. While Ms N may not now like how the policy worked, that doesn't mean that there was anything wrong with it when it was sold or that Royal London did anything wrong in administering it in line with the policy terms and conditions.

As I said in my provisional decision, I can understand why Ms N was disappointed with the maturity value of her policy, given the shortfall of around 27% against its target value of £36,394. However, Ms N has not provided any evidence, other than her opinion, that indicates Royal London paid her less than she was entitled to from the policy. Indeed, the risk letters that she was sent from 2003 predicted that the policy would produce less than £30,000 at maturity based on the middle, assumed growth rate. From 2010, the middle projection had been in the region of £28,000, which is in line with the actual maturity value. While I have noted Ms N's comments about the re-projection letters she was sent, I would confirm again that they were a requirement of the regulator and Royal London used the format that it was required to, alongside all other mortgage endowment providers. Ms N has provided no evidence that the information contained in the letters she was sent was misleading or that Royal London included incorrect information in them in order to be able at the end of the 25-year term, to pay her less than she was entitled to.

Ms N has put forward the information that she considers Royal London should have to provide her with in order to satisfy her that she has received the amount she should have from her policy. In most situations I would expect a product provider to give a consumer information that has been requested, but such a request has to be reasonable. The detailed information and analysis Ms N has asked for, especially given it goes back more than 25 years and may well no longer be available given the transfer of the policy between providers, is not a request that I would consider reasonable.

While I have carefully considered Ms N's response to my provisional decision, it has not persuaded me to alter my conclusions in this case.

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 Ms N to accept or reject my decision before 16 April 2025.

Derry Baxter
Ombudsman