

The complaint

Mr R complains about the surrender value of his life assurance policy held with The Royal London Mutual Insurance Society Limited as he feels it should be higher, due to the number of years the policy has been in place.

What happened

In 1975 Mr R took out two insurance policies with Co-operative Insurance Society, now Royal London. One was an income benefit policy with a term of 20 years and an annual premium of £27.24 which would pay a benefit of £2,000 per year upon a successful claim. The other was a with-profits life assurance policy with an annual premium of £92.04, and a sum assured of £4,000 plus bonuses. In 1982 after seven years and four months of premiums, he stopped paying premiums and so the income benefit policy came to an end. The life assurance policy had built up a surrender value of £648.08 and in 1983, a year after the premiums stopped, it was converted into a non-profit whole of life policy with a sum assured payable on death of £1,937.20.

In 2021 Royal London reached out to Mr R to remind him of the policy details. They gave him a surrender value quote for the policy of around £1,350 and enclosed a leaflet called *"Alternatives to the surrender of your policy"*, which set out various options. In May 2023 Mr R requested an updated surrender quote and Royal London provided a figure of around £1,400 and again enclosed the leaflet.

On 4 September 2023 Mr R complained, saying the fund value had been in Royal London's possession for more than 40 years and so should have a greater value. He said the leaflet he'd been sent mentioned being paid a fair value based on investment returns, and that the policy would continue to receive bonuses after being made paid up, which is what he understood happened in 1983.

Royal London didn't uphold the complaint overall, though they offered £50 for a delay in handling his complaint. They explained that since 1983 it's been a non-profit policy and the money was no longer invested in the with-profits fund, so he hasn't received any bonuses since then. Mr R remained unhappy so he brought the complaint to our service, in summary saying that he feels it's unfair that Royal London could retain any growth or interest on the value of the policy since he stopped paying in 1982.

An investigator at our service considered the complaint but didn't uphold it, saying that as it was a non-profit policy, there wasn't any growth that he'd be entitled to. Mr R disagreed, saying he'd paid premiums of over £750 and so the surrender value was unfair and not inline with the information in the leaflet provided by Royal London. He understood his money hadn't been in the with-profit fund since 1983, but that it would have earned interest since, which he felt he should be entitled to. No one had explained to him where the money had been held since 1983. The investigator wasn't persuaded to change her mind and so the complaint was passed to me for a decision.

I requested further information from Royal London, including the actuarial calculations for the surrender value of the policy. I also asked for an explanation of the leaflet they sent to Mr R

as it didn't seem to apply to his policy. Royal London said they send the leaflet as standard with this type of surrender quote, and they felt the leaflet was clear about the fact that the options it set out only *might* apply – it didn't guarantee they were available. I then issued a provisional decision on the case, and my findings were as follows:

My provisional decision

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've considered two main questions here, firstly whether Royal London has treated Mr R fairly and reasonably in their calculation of the surrender value of his policy and secondly whether they've given him clear fair and not-misleading information about his life assurance policy.

I've started by considering the terms and conditions of the life assurance policy Mr R originally took out in 1975. In summary they say that once the policy has acquired a surrender value of at least a full year's premium - in Mr R's case at least £92.04 - if the premiums stop, the policy will remain in force for a further 12 months. During that 12 months Mr R could ask to continue paying into the policy. If there was no contact in the 12 months, then at the end of it, the terms said:

"the policy will be converted into a paid-up policy without profits for such an amount as the balance of surrender value after the deduction of the arrears of premium and interest and any existing charge in favour of the Society will secure".

Generally, a without profits policy means that the policy holder isn't entitled to any share of the insurance company's profits in return for the premium, so the sum assured is set at the start and won't change. As a direct comparison, the with-profits policy Mr R had before 1983 was designed to pay bonuses on top of the basic sum assured. For without profit policies, there are a number of different underlying policy structures that are utilised by firms to reach that same end goal, so I asked Royal London for clarity over the way this policy worked.

Royal London explained it's a pure insurance product. Essentially this means that once the 12-month period had passed, in 1983 the remainder of the surrender value of the original policy was used to purchase a simple life assurance policy. The money wasn't further invested or ringfenced in Mr R's name by Royal London – it was used as a lump sum up front premium to pay for a whole of life policy.

Sometimes without profits policies haven't got a surrender value, similar to other types of insurance policies, like car or home insurance, that only pay out on a successful claim. However, Mr R's policy does have a surrender value – though it's not related to any investment returns or interest. To understand how it is calculated, I wanted to see the terms and conditions which would normally explain this, but Royal London don't have them for the without profit policy. So, I asked them for their internal actuarial instructions to show the basis for their calculation of the surrender value.

I've sent three requests for this now, on 17 December 2024, 9 January 2025 and 12 February 2025. Unfortunately, each time Royal London's reply hasn't included the information I need. Following my last request, they've sent me their internal actuarial instructions on calculating the sum assured for the policy on conversion from the with-profits to the without profits policy.

They've also provided the calculation they carried out in May 2023 to calculate the surrender value of the without profit policy – but not the guidance or instructions this is based upon. This shows they've calculated the surrender value as follows:

The non-profit sum assured x the "Table C&E Bonus Factor" x a reduction factor

I've been sent a copy of the Table C&E Bonus Factor document, and this has a list of numerical factors to apply, depending on the age of the life assured at the time of the calculation. In May 2023 Mr R was 77 and according to the table this mean the factor was 0.759. The calculation says the reduction factor used was 0.95 (but again, I haven't got anything to verify that this is in line with any instructions Royal London should follow). The calculation for Mr R's surrender value in May 2023 was:

$$£1,937.20 \times 0.759 \times 0.95 = £1,396.81.$$

The Table C&E factor for use in February 2025 is 0.769, so the current surrender value would be around £1,415, and it goes up in varying increments each year.

I still don't have anything to verify that the method used for the surrender value of Mr R's policy is the same as that used for any customer with the same type of paid up without profit whole of life policy. So, I can't be sure that the method used by Royal London is fair and reasonable.

To put this right, in reply to this provisional decision, Royal London must provide me with this evidence. In the document I've been sent showing how to calculate the sum assured on conversion of the original policy, there is mention of a document called "Tables C and E – C.S.V. of P.U.P" from its name alone, I believe this might be the document that I need to see, as I understand the acronyms stand for "cash surrender value of paid up policy".

In the event that Royal London are able to provide evidence to verify that the calculation used for Mr R's surrender value is the same Royal London would always use, then in my final decision I'm likely to find that Royal London has treated Mr R fairly and reasonably in the way they've calculated his surrender value. This is because the terms of the original policy allowed it to be converted into a without profit policy and in taking out the policy in 1975, he agreed to those terms.

As set out above, I believe the surrender value of £648 hasn't been held by Royal London in the way that Mr R thought it had and instead it purchased a pure life assurance policy. The method of calculating the surrender value of such a policy is something that is unique to each insurer and is dependent on the underlying policy structure.

For instance, some have got an underlying investment element, and the surrender value would be that investment's value – though I understand that is not the case here. Where there's no underlying value, then the insurer would need to set a method of their choosing – provided they apply the same method to all customers with the same sort of policy. That's why I need to see the instructions Royal London's actuaries are following when calculating the surrender value, so I can compare this with the calculation they've carried out for Mr R.

I have also considered whether Royal London explained everything to Mr R in a clear, fair and not-misleading way, since 2021 when they began to discuss the surrender value. At no point has Royal London explained to Mr R how they calculate the surrender value, other than in a letter on 30 June 2021 when they said:

"The non-profit sum assured is the amount we will pay if the policy becomes a claim by death. If you choose to surrender the policy, we calculate a reduced value, again by applying

certain factors, based on the duration at the time of calculation. We cannot provide a breakdown of the calculations.”

On 19 and 25 October 2023, after Mr R complained, Royal London sent him the details of how they calculated the sum assured of the policy when it was converted in 1983. But Mr R was not complaining about the sum assured – he was complaining about the surrender value and his complaint letter of 4 September 2023 clearly said: “I’m extremely disappointed with the cash surrender value”.

In addition, at no point has Royal London explained to Mr R the structure of the without profit policy, in the way that they’ve explained it recently to me, as a pure insurance product. In my view, this could have been resolved when answering his complaint about the surrender value or earlier in June 2021. Instead, they sent Mr R on at least two occasions a leaflet that was almost entirely irrelevant to the type of policy he has. It contains a number of options that a policy holder could consider rather than surrendering – but as far as I can tell, not a single one of the three options would have been available to Mr R.

The leaflet appears to be aimed at endowment policies, and Mr R’s policy is not an endowment policy – for instance it refers several times to a policy term, but Mr R has a paid up whole of life policy. The leaflet also sets out a number of ‘points to consider’. Royal London has said they are satisfied the language used makes it clear that these points are not applicable to all customers, but I disagree and will set out a couple of examples:

- It says: “your policy provides benefits, including bonuses” that’s a clear statement that the policy includes bonuses with no caveats – no use of the word “might” for instance.
- It says: “If you surrender we will pay you a fair value based on the investment returns”, but the surrender value in Mr R’s policy is not based on investment returns and again there was no language used in this section that suggests it might not apply to all policies.

Bearing in mind that Mr R never received any terms and conditions for the without profit policy after it was converted in 1983, he was reliant on information from Royal London in 2021 and 2023 to understand how it would operate. I’m satisfied that in providing this leaflet to Mr R alongside surrender quotes, and refusing to otherwise explain the surrender value calculation, Royal London have communicated in a way that is unclear, unfair and misleading.

I note Royal London contend that they told Mr R in a separate letter in October 2023 that the leaflet was just generalised information and wasn’t all applicable to his policy. However, they’ve not provided a copy, and when we asked Mr R, he only had a copy of letters dated 4, 5, 19 and 25 October 2023, none of which explain the leaflet. So, I have no evidence that Royal London sought to correct any confusion caused by the leaflet, despite Mr R referencing this when he complained.

In considering how to put this right, my aim is to put Mr R in the position he’d be in now, but for Royal London’s error. If they’d been clearer, this would have put Mr R in an informed position to allow him to make a decision about whether to keep the policy in place or surrender it. I believe Mr R hasn’t yet surrendered the policy, and it’s difficult to say he would have done so earlier if he’d been given clear information, as I haven’t any evidence of this.

So instead, I consider that a payment of compensation for the confusion and inconvenience caused would be fair here, to make up for Royal London’s error. I note they’ve already offered £50 for the delay in considering his complaint. Overall, I’m satisfied a payment of

£300 (including the £50 offered) would be fair here and in reaching that figure I've taken into account the following:

- The fact that Mr R has been requesting information about the surrender value since 2021 and Royal London hasn't provided it, despite a complaint having been made.*
- The information Royal London did provide has caused Mr R to expect a return based on an underlying investment or bonuses, when this isn't the case.*
- Royal London failed to correct Mr R after he made it clear he was expecting a return based on an investment.*
- Mr R didn't receive an acknowledgement to his complaint in a timely manner.*
- Royal London has failed to comply with my requests for information to corroborate their surrender value calculation over the last two and a half months. Under DISP 3.5.14 I can award compensation for failure by firms to comply with our time limits.*

In summary, before I can issue a final decision on this complaint, I need to see further evidence from Royal London. If I'm convinced by such evidence that they've calculated the surrender value in a fair manner, then my final decision is likely to be that Royal London should pay Mr R £300 for the inconvenience and confusion caused."

Replies to my provisional decision

Royal London provided me with an internal document from 2019 that sets out their record of surrender value method of calculation for these policies. They also provided two anonymised surrender value calculations for other customers with the same type of without profits whole of life policies, showing the same method was used.

Mr R replied and said, in summary:

- He thought his policy may have now reached maturity and was concerned at the lack of contact from Royal London.
- He asked whether Royal London explained in any correspondence with our service why it had taken so long for them to trace him.
- He was happy I had been able to explain what had happened on conversion of the policy in more detail. But he felt the lump sum that was used to buy the without profit policy would have been too small to provide the sum assured, especially when considering the premiums they originally charged for just over twice the sum assured on the with-profit policy. He said this suggested that the with-profit surrender value had been invested, which is supported by the fact the without profit policy has a surrender value. So, he still feels he is owed a higher surrender value, of around £8,500 based on a 7% per year growth rate.
- He feels there is a question of the fairness of the contract terms of the policy that ought to be considered. He used the examples of widely reported on PPI and discretionary commission arrangement complaints – things that were seen as normal at the time but later seen as unfair and detrimental to consumers. He believes that Royal London has benefited vastly from the policy and that if it were sold today, the policy would have very different terms.
- He is convinced that at some point the policy has been recognised as being unreasonably favourable to Royal London and that later iterations of the policy were revised to be more equitable. He feels the leaflets they sent out support this as they state bonuses are payable and questioned why they would have been sent if the policy he has doesn't attract bonuses. He feels that if the policy was later changed to be fairer when sold to new customers, that his version of the policy should be changed too.

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.

Before I go into my final decision findings, for Mr R's benefit and for absolute clarity, the policy he currently holds does not have a set term and so it has no maturity date. It is a whole of life policy and only ends on a claim on his death, or if he decides to surrender it earlier. While I appreciate the leaflet Royal London sent him with the surrender quotes mentions a set term, I've found that leaflet was misleading. So Royal London wouldn't have been in touch with him about any maturity. Mr R is free to surrender the policy at any point.

To answer his other question, no Royal London has not explained why they decided to undertake the tracing exercise in 2021 and not before. As the timing of their contact was not the subject of this complaint, it is not something Royal London has had an opportunity to look into and they would need that opportunity before I could investigate it. So, I won't comment on it further in this decision.

Having carefully reviewed the replies to my provisional decision, I've not been persuaded to change my findings. The evidence Royal London has provided persuades me that its more likely than not, that the method they've used to calculate the surrender value of Mr R's policy is the same they would apply to other customers who held without profits whole of life policies. So I'm satisfied the method they've used is fair, for the reasons I gave in my provisional decision as set out above, which form part of my final decision. While I appreciate Mr R's strength of feeling on the matter, I have to say I disagree with the points he's made, for the following reasons:

- Mr R says that the fact there is a surrender value shows there must be an underlying investment element attached directly to his policy. As set out in my provisional decision, this isn't the case. Particularly with older non-profit whole of life policies sold in the 1970's and 80's, in my experience there can be a variety of surrender value calculations that firms apply that are entirely unrelated to interest rates or investment returns. Instead they are usually contractual agreements – so the method is set out in the terms of the policy sold and cannot be changed by either party alone. In that situation, what a business does in the background with the premium paid for the cover to ensure they have enough funds to pay their contractual obligations, is up to that business. The customer is not entitled to the returns from it – unless the terms of the product say they are. This is reflected in the phrase 'without profit' – it means that Mr R is not entitled to a share of the profits made by Royal London on the premium he paid for the policy, after conversion in 1983.
- For whole of life assurance policies generally, usually the terms cannot be changed after the start of the policy, as it wouldn't be fair without mutual agreement. This is not only for the benefit of Royal London, but equally for the benefit of Mr R too – the parties to this type of long-term insurance contract deserve certainty of the terms under which the policy is being operated.
- If a firm decides that they no longer wish to offer policies on the same terms, then they will stop selling that policy. When a policy is no longer on sale, it becomes what's known as 'closed book'. If the firm then decides to sell a similar type of policy but with different terms, this wouldn't retrospectively change the terms of the other policies previously sold. So, if Royal London did sell other with-profit whole of life policies at later times on different terms to the ones sold in 1975, they would have no bearing on previous closed book policies, including Mr R's policy.

- Some without profit whole of life policies have no surrender value whatsoever, including many on the market now. They are most commonly known as over-50's plans these days, usually providing a sum assured of less than £10,000 in return for a set premium, and they would only provide a return on death. There usually comes a point during the life of the policy, if the person covered lives a long time, that the customer pays more into the policy than they would get out of it. Of course, the opposite is also true – the customer may end up paying only a small amount compared to the sum assured, if they die earlier. These policies are also known as 'pure protection' policies – where there's no underlying investment element. This is the nature of insurance and doesn't in itself make a policy unfair.
- Mr R took out this policy in 1975. The contractual terms should not be judged by the industry standards of today – in my view that would not be fair or reasonable. Regardless, I am satisfied the term that allowed the with-profits policy to be converted to a without-profits policy was fair because it was clear and unambiguous. There was nothing in the with-profit policy terms that sets out that Royal London would agree to pay a surrender value on the without-profit policy after conversion, or how that value would be calculated. So, I can't say that Mr R was misled into believing he would receive a higher amount.
- My understanding of why the leaflet was included is that Royal London thought it was appropriate for inclusion with surrender quotes for all policies as they felt it was sufficiently vague. As I set out in my provisional decision, I've found that the leaflet shouldn't have been included as it was unfair, unclear and misleading.

Overall, I can't agree with Mr R's suspicions about Royal London's reasons for including the leaflet, nor can I agree that the terms of the policy are unfair. In my view the surrender value of the policy has been calculated in a fair and reasonable manner. I remain satisfied that Royal London's error here was in providing Mr R with unclear information which caused unnecessary confusion, and they've caused unreasonable delays. Royal London should pay Mr R £300 in total for the inconvenience and confusion caused.

My final decision

I uphold the complaint. The Royal London Mutual Insurance Society Limited should pay Mr R £300 compensation for the distress and inconvenience caused. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 15 April 2025.

Katie Haywood
Ombudsman