

## The complaint

In summary, Mr H is unhappy as he doesn't think The Royal London Mutual Insurance Society Limited ('Royal London') has correctly administered the reviewable whole of life policy that's held with it and he's unhappy with the redress it has provided him with.

## What happened

I've outlined what I think are the key events and points involved in the complaint below.

In late 1999 Mr H took out a reviewable whole of life policy – that Royal London is now responsible for and which I will refer to throughout – to provide protection for his family. The initial monthly premium was around £53, indexation of the sum assured applied and reviews of the benefits would be at the ten-year anniversary and then every five years.

I understand the 2014 and 2019 review letters required changes to be made. While I haven't seen copies of these letters, Mr H contacted Royal London in 2014 about that review as he thought his smoker status had contributed to what he felt was an excessive premium increase requested to maintain his sum assured. And, in response, amongst other things, Royal London explained that the plan was set up on a maximum basis, so it offered the highest sum assured for the lowest premium. It said reviews calculate the premium required to maintain the sum assured, reflecting the increasing costs of cover with age and an increased premium was required to maintain Mr H's. And that, as discussed, it had placed a stop against Mr H's September 2014 premium so he could obtain independent advice and decide how to proceed. And, in response, it seems Mr H decided to increase his monthly premium to around £170 to maintain the sum assured of around £85,000.

I understand Mr H's monthly premium and sum assured continued to increase beyond these reviews due to indexation and that, by the start of 2023, these had respectively increased to around £512 and £120,200.

In 2023, Royal London sent Mr H an indexation letter which said he could choose to increase his sum assured in line with inflation, taking this to just over £132,200 and for a monthly premium of around £636. It said that if Mr H didn't want this to apply then no further indexation increases would be available in future. Mr H didn't apply this, so his sum assured and premium remained the same.

In 2024, Mr H received a review letter, which said that changes were needed, and may be necessary again in future, as his premium wasn't sufficient to provide the sum assured until the next review. Mr H was given the option to increase his monthly premium to just over £1,135 to maintain his sum assured, to reduce this to just over £54,000 for the existing premium or to maintain his sum assured and premium which would mean the plan would lapse with no value when the investment fund was exhausted.

In August 2024, Mr H complained to Royal London. He said, in summary, that its 2023 indexation letter hadn't said that his sum assured could drop if he maintained his premium. Mr H was unhappy with the significant changes in the review and when he'd paid around £51,500 in total premiums. Mr H asked Royal London to review its calculation and said he

didn't want to increase his premium. And Mr H said that his existing premium and sum assured should remain the same or his premiums should be refunded from inception.

Ultimately, Royal London went on to uphold Mr H's complaint in its October 2024 final response letter, which said that it would refund his premiums from the start of September 2019 onwards, plus 8% net simple interest on the basis Mr H would have cancelled his policy following receipt of the 2019 review letter. Royal London said it wouldn't refund these any further back though, or from 2014 in the way Mr H had said it should, as he chose to keep the policy and increase his premium after its 2014 letters, rather than cancelling it. And that it uses simple interest in line with our Service's approach.

Mr H's policy was cancelled upon his agreement and Royal London paid him the September 2019 surrender value, as well as a refund of premiums from then onwards, plus 8% simple interest, totalling around £32,400.

As Mr H remained unhappy, he came to our Service and added, in summary, that the 2024 review letter was incompatible with the 2023 indexation letter, which said that if he declined the increase then no future increases would be available. And that the 2023 letter didn't indicate that the sum assured would reduce in 2024. Mr H said Royal London still tried to take the increased premium in September 2024 when he hadn't agreed to that. Mr H said he would have cancelled the policy in 2014 if Royal London had indicated significant changes would be needed in future. And that its 2014 letter was in response to his query about the review letter still listing him as a smoker, rather than a complaint. Mr H also said he now understands our approach is to use simple interest.

One of our Investigators said they weren't asking Royal London to do anything further. They said that Mr H's plan is reviewable and Royal London ought reasonably to have known since around 2018 that significant changes to this would likely be needed as Mr H got older, as the cost of cover had started to outweigh the premiums paid, and it should reasonably have made him aware of this within its 2019 review letter. And our Investigator wasn't persuaded that 2019 review letter met regulatory obligations and standards of good practice. But they said Royal London had recognised this and provided Mr H with redress in line with our approach and with what they might have otherwise recommended in the circumstances. Our Investigator also said that Royal London's indexation letters were separate to the review process and letters – the indexation process doesn't involve the calculations performed at reviews – so we wouldn't have expected it to have given Mr H the type of information in those that it should have in the 2019 review letter.

Mr H didn't agree. He added that Royal London should have provided more information in its earlier letters too and if it had done that in its 2014 review letter then he would have cancelled the policy then.

As no agreement could be reached, the case has been passed to me for a decision.

### **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, while I understand Mr H will be disappointed, I'm not asking Royal London to do anything further for the following reasons, which are largely the same as those given by our Investigator.

While I've carefully considered the entirety of the submissions the parties have provided, my decision focuses on what I consider to be the central issues. The purpose of my

decision isn't to comment on every point or question made, rather it's to set out my decision and reasons for reaching it. And I've looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is likely to, or should, have happened.

In deciding this complaint I've taken into account the law and regulations; regulatory rules, guidance and standards; codes of practice; and (where appropriate) what I consider to have been good industry practice at the relevant time. And this also includes:

- The FCA's Principles for Businesses, in particular Principle 6 and Principle 7 (PRIN).
- The FCA's Conduct of Business Sourcebook (COBS), in particular COBS 2.1.1R(1) and COBS 4.2.1R(1).
- The FCA's Final guidance on the "Fair treatment of long-standing customers in the life insurance sector" (FG16/8).

The key features document Royal London sent to Mr H when he took out the plan explain that it is reviewable and that if the benefits can't be maintained the premium may have to be increased or the sum assured reduced. So Royal London is entitled to review the policy, including the premium and cover level, in the way it did. And I've seen no evidence that the requested changes weren't a legitimate exercise of Royal London's commercial judgement. It was entitled to take a reasonable view of the risk posed to it and put a price on that. And I think it has done so following a typical process, run by industry professionals.

I think it's helpful to explain how the plan works though. Part of the premiums Mr H was paying were invested to pay for the increasing costs of cover later in life, as these increase as the policyholder gets older with this type of policy. The effect of such costs on a policy value is an inevitable consequence of these becoming more expensive with age and it allows these to be more affordable at the outset. But, if premiums remain the same, at some point the costs of cover will exceed these and units in the investment fund need to be sold to meet the shortfall. Eventually, increases in the cover costs outpace the fund growth and the business will decide that, to maintain the cover level, substantial additional premiums need to be paid as the life cover costs increase with age, unless the sum assured has been substantially reduced. At this point, any premium increase is likely to be very expensive and when the consumer may have limited means to meet these. Or, if the level of cover has reduced substantially, the policy may no longer meet their objectives or be cost-effective.

The impact of such sudden and significant changes can be mitigated by adjusting the terms of cover earlier. If a consumer elects to increase premiums this will have a smoothing effect, so that such significant increases down the track might be avoided. In that case, the premiums will be higher than at the outset, but not as high as these would have otherwise later needed to be. Alternatively, the consumer might decide to surrender the policy or decide it's worth keeping without increasing the premium. Given the impact of increasing cover costs though, the opportunity for a consumer to make such decisions is a key event in the policy life. It's in their interest to make these at an early stage and for them to do so in an informed way businesses need to provide them with clear, fair and not misleading information.

In Mr H's particular case, based on the available evidence the annual costs of cover have been exceeding his premiums since policy year beginning September 2018. Mr H's annual premiums for that policy year totalled just over £2,575 against total annual costs of cover of just under £2,650. This meant that, in policy year 2018, Mr H's policy had reached an important 'tipping point', or key point in the policy's life cycle, for his interests and information

needs, as there was a significant risk substantial increases in premiums or reductions in the sum assured would be required.

And, taking into account the regulatory obligations I have set out above (PRIN) and what I consider to be standards of good industry practice at the time (including the regulator's views as expressed in FG16/8), and in any event what I consider to have been fair and reasonable in the circumstances, I'm satisfied that Royal London should have taken steps to ensure it communicated information to enable Mr H to evaluate the impact of the increasing costs of cover on his policy and the options available to him in a clear, fair and not misleading way. This needed to include the risks, costs and benefits associated with those options, as well as giving him clear timelines for the making of decisions where applicable.

While Mr H thinks Royal London should have provided this information in the 2014 review, I think this is something it reasonably needed to do within around 12 months of the tipping point being reached which, as I've said, I think occurred in policy year beginning September 2018. And given Royal London was due to send Mr H a review letter in or around July 2019 for policy year beginning September 2019, it follows that I think it should reasonably have provided this information in that 2019 review letter to enable him to consider his options and make a timely decision. By that point the effect of charges during the previous policy year and how this compared to Mr H's existing premium would have been apparent.

And by giving Mr H clear information in the 2019 review letter about how much the policy was costing and the impact of this, as well as the options available and the cost of those options, I think Royal London would've been acting consistently with the guidance at FG 16/8 that "*firms [include] sufficient and clearly explained details regarding the performance of the product, its value and the impact of fees and charges*". Such communications also needed to specifically set out the "*value of any premiums paid in over that period*", and "*charges incurred over the period in monetary figures*", including "*major components and the charge to the customer for benefits such as life cover and guarantees*".

I've considered what Mr H has about Royal London's indexation letters and that he feels it should have provided this information within those. But indexation concerns increasing the benefits in line with inflation and it's an optional process. Reviews are a separate process (albeit the results might be combined with annual indexation if due at the same time) and aren't optional, these focus on whether the premiums can support the sum assured and the letters set out the required action. So I wouldn't have expected Royal London to provide the above information in its indexation letters. Instead, as I've said, I think it should have reasonably done so in its 2019 review letter.

It isn't in dispute that Royal London failed to provide Mr H with information about his policy's costs of cover and the impact of this exceeding his premiums, for example. And Royal London has accepted that if it had provided Mr H with this type of information in the 2019 review letter in the way it should have, then he would likely have surrendered the policy at that point. As result, it paid Mr H his policy surrender value from around the start of September 2019, as well as refunding the premiums paid from then, plus 8% simple interest to put him back into the position he would otherwise have been in. So I haven't felt it necessary to decide whether I think Mr H would have done something differently on receipt of the 2019 review letter, such as surrendering his policy, as Royal London has already paid him redress that's in line with our Service's approach in that case. And this means I'm not asking it to do anything further.

I think it's also worth noting though that, even if I did think Royal London should have provided Mr H with the above information *prior to* the 2019 review letter – which, for the above reasons, I don't – I wouldn't have told it to provide redress back to the 2014 review in the way Mr H has requested, as I'm not persuaded he would likely have surrendered the

policy then. I say this because, despite being given some information in 2014 to know that the increased premium he was unhappy about was due to costs of cover rising with age, Mr H still chose to keep the policy, likely I think as he still felt it was worthwhile at that time.

### **My final decision**

For the above reasons, I'm not asking The Royal London Mutual Insurance Society Limited to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 13 April 2026.

Holly Jackson  
**Ombudsman**