DRN-5535365

The complaint

Mr C and Ms F complain about the way that ReAssure Limited administered their policy – and in particular, about the increases in premiums and the reduction in value that the policy suffered until it was surrendered. They feel that they paid more in premiums than the policy was worth and felt that ReAssure ought to be responsible for restructuring the policy to make it viable and fit for purpose.

What happened

Mr C and Ms F took out this Reviewable Whole of Life policy in 1994 with Guardian Financial Services, for a monthly premium of £130 and a sum assured of £190,650 payable on the first death and, if the policy remained in place, on second death. ReAssure are now responsible for this complaint and I therefore make reference to it going forward.

In February 2014 Mr C wrote to ReAssure – having initially asked for the policy to be surrendered, he agreed with Ms F for the policy to be maintained but for her to take ownership of it. He remained one of the lives assured.

In March 2014 Ms F wrote to ReAssure and confirmed that she wanted to assume responsibility for paying the premiums and would also cover the arrears that had accrued on the policy of £650. She confirmed that she wanted both her life and that of Mr C to be covered, and for the proceeds to be held in trust for their children.

In May 2014 Mr C and Ms F's policy was reviewed. They were told that "to keep your current level of protection benefits it is necessary to increase the premium" – from £130 to £187.52. They were also given the option of reducing the sum assured. The letter explained that the policy would have no surrender value, no matter the growth, in 7 years time. It invited Mr C and Ms F to speak to a financial adviser in order to review their circumstances.

Following this letter, Ms F contacted ReAssure to discuss the policy. Having been unable to discuss it over the phone, she wrote to ReAssure and asked what would happen if she didn't agree to the increase in premium, and also asked ReAssure to "confirm whether even if I accept the proposed increase in the monthly payment, there would be no financial benefit after seven years associated with the increase in the monthly payment".

ReAssure replied in June 2014. It explained how the policy was reviewed and, in summary, explained that at the previous review in 2009 it had projected investment growth on the underlying fund of 6%. This had not been achieved. It said that the premium they'd been paying hadn't been enough "on its own to cover the monthly charges on your policy, so the shortfall in payments has been met by using the surrender value of your plan". It also explained the costs of the life cover, which were "£184.35" for Mr C and "78.83" for Ms F. It said there was monthly service charge of £4.77 which brought the total monthly charges to £265.96 versus the premium, at that point, of £130. This letter explained that if Ms F didn't increase the premium, the protection benefits would be reduced.

In July 2014, Ms F asked for confirmation that the increase premium would maintain the cover for herself and Mr C. ReAssure confirmed that "if your premium increases to £187.52

per month with effect from July 2014, the life protection of £190,650 will remain" until the plan was next reviewed in 2019.

However, it also told her that the plan was a "current cost contract" and this meant that "generally the cost of any insurance protection increases as you get older, there is a high likelihood that your premium would need to increase in July 2019 to continue to receive the current level of benefits".

Ms F went ahead with the changes and paid the increased premium until the next review.

In June 2019 the policy was reviewed again. ReAssure wrote to Mr C and explained that the cover was at risk. It provided options for making changes to the policy. This involved either keeping the same premium but reducing the sum assured to £143,480 or increasing the premium to £370.28 per month. They could also cancel the policy and received the investment value of £12,766.35.

Ms F complained. She said that this review letter was evidence of the policy failing to perform on the terms on which it had been sold to her and the proposed changes were "outrageous".

ReAssure looked into Ms F's complaint but didn't think it had done anything wrong. It explained the terms of the policy and how it had been reviewed, and that it had done so in line with the terms and conditions of the policy.

Ms F remained unhappy and referred her complaint to the service. At the same time, she declined to increase the premium she was paying towards the policy.

One of our investigators looked into Mr C and Ms F's complaint but didn't think it should be upheld.

Ms F disagreed with the investigator and asked for an ombudsman's decision. She said:

- The policy was always intended as essential life insurance cover.
- Both her and Mr C had paid significant sums for a policy that was now effectively worthless and this wasn't fair. She said this was particular unfair given the investigator appeared to agree that ReAssure hadn't been open or transparent and, had it done, this might have led them to terminate the policy and arrange cover somewhere else.
- She said she hadn't made changes to the policy after the 2019 review because she was waiting for the outcome of this service's investigation into her complaint.
- She was very unhappy that the policy surrender value was now less than £5,000 despite the "tens of thousands of pounds in premiums" and it was this low value which had caused them not to surrender it.

I issued a provisional decision. In that decision I said:

What I've provisionally 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 completely understand Mr C's and Ms F's reason for complaining. However, my role is to

remain impartial and, when the evidence is incomplete or missing, as some of it is here, decide the matter based on what I consider is most likely to have happened.

Below I set out the relevant standards that I've taken into account in my decision.

Relevant considerations

In reaching my conclusions, I've considered:

- *The FCA's Principles for Businesses, in particular Principle 6 and Principle 7;*
- *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).*

What is the fair and reasonable outcome in the circumstances of this complaint

The key feature of Mr C and Ms F's policy is that part of the premiums they were paying throughout the years were to be invested in order to pay for the increasing costs of life cover later on in life. This is because for these types of policies, there's an increased likelihood of increasing life cover costs as the policyholder gets older. Although I understand Ms F is unhappy with the effect of these increasing charges on the value of the policy and has raised that dissatisfaction at other times in the past, the increasing life cover costs are simply an inevitable consequence of the policy becoming more expensive as the policyholder gets older. This is very typical for these types of policies. It is also what allows these policies to be more affordable at the outset.

In the early years, when the life cover costs are low, part of the premiums are invested to build up a fund that can be used to help pay for the increasing life cover costs in later years. At this stage, the premiums can meet the costs of the cover on their own.

However, if the premiums remain at the same level, there inevitably comes a point where the life cover costs will exceed the monthly premium and units in the investment fund need to be sold to meet the shortfall, reducing the investment fund value over time – unless the fund's growth outpaces the rise in the costs of cover.

Eventually, the regular increases in the cost of life cover will outpace the growth in the fund, so that as units in the fund continue to be sold, it will reach a point when the firm concludes that the premiums being paid and the fund value are no longer enough to pay for the costs of cover. To maintain the policy with its existing life cover, the premiums (if they are still at the level they were when the policy began) will need to increase suddenly and substantially and will continue to increase each year as the consumers get older and the life cover costs increase accordingly, unless the sum assured has been substantially reduced. This is what has happened to Mr C and Ms F's policy.

At this point, there can be several poor outcomes for the consumer. It's possible that the investment fund will be almost completely depleted, leaving little surrender value. Any increase in premiums is likely to be very expensive and potentially unaffordable at a time when the consumer may be retired or close to retirement and have limited means to meet significant increases in costs. Alternatively, if the level of life cover has reduced substantially, the policy may no longer meet the consumer's objectives or ceases to be a cost-effective proposition.

The impact of these sudden and significant changes to the premium or level of life cover that occur at the point the policy fails a review, can be mitigated by adjusting the terms of the cover earlier in the life of the policy. If, for instance, a consumer elects to increase premiums some years before the policy is likely to fail a review, this will have a smoothing effect over time, so that the policy is less likely to fail a review and the sudden and dramatic premium increases down the track can be avoided.

This gives the consumer the chance to set premiums at a more affordable and sustainable level for a longer period – even for the rest of their lifetime. The new premiums will be higher than they were at the outset, but not as high as they would otherwise need to become at the point the policy fails its review.

Alternatively, at that earlier point, a consumer who is faced with significant increases in premiums or decreases in the level of life cover down the track might decide the policy itself is no longer cost effective, or that it is failing to meet its objectives, and elect to surrender the policy. In other cases, a consumer might decide that it is worth maintaining the policy on its existing terms right up to the point that the policy fails a review.

The opportunity for a consumer to make these decisions is a key event in the life of the policy. Given the impact of increasing life cover costs on the investment fund, and in time on the premiums (or sum assured), consumers have important decisions to make about whether to retain the policy, increase the premiums and / or decrease the sum assured during the life of the policy. Those decisions become more difficult the longer the consumer pays into the policy and the options available for mitigating poor outcomes start to diminish. So it is in the consumer's interest to make key decisions at an early stage in the policy's life cycle, and in order to do so in a fully informed way, firms need to provide consumers with clear, fair and not misleading information.

Mr C and Ms F's increasing life cover charges and the reviews of his policy

I don't have all the evidence of the costs of cover throughout the life of the policy, so I cannot be precise. But from the evidence I do have, I can see that in 2014 the policy was costing around £3,180 per year versus premiums, before the 2014 review, of £1,560.

Once Ms F agreed to pay the additional premium, that yearly figure went to £2,250.24 – still less than the policy charges. By the policy year 2017/2018, the charges amounted to £3,978, almost double what was being paid in premiums.

Based on this evidence, I think it's more likely than not that the policy was costing more than the premiums for some years before the 2014 review.

This means that by the 2019 review, units in the underlying fund had been sold over a number of years in order to meet the shortfall between the premiums and the costs of the policy. The impact of this was in large part mitigated by the growth of the underlying fund. However, by 2019, the increase in the costs of life cover outpaced the growth of the fund, and this is what led to the policy reducing in value so considerably. As I explained above, however, this wasn't something that ReAssure was doing incorrectly or that was not consistent with this product or the terms. The underlying investment fund was designed to work this way.

What should ReAssure have told Mr C and Ms F?

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 ReAssure should have taken steps to ensure it communicated information to enable Mr C and Ms F to evaluate the impact of the increasing life cover costs on their policy and the options available to them 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 them clear timelines for the making of decisions where applicable.

In my view, this is something that ReAssure needed to do within 12 months of the tipping point being reached – and as I've said, I think it's likely this point occurred before the 2014 review. By giving Mr C and Ms F clear information about how much the policy was costing and allowing them to compare those costs with the premiums they were paying, ReAssure would've been acting consistently with the guidance at FG 16/8 that firms provide "regular communications" with customers – and to ensure that, in their communications, 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".

What information did ReAssure give Mr C and Ms F what would they have done differently?

To my mind, this is the key aspect of this complaint. Although I don't have the evidence available, my experience of these types of complaints suggests that it is likely that Mr C and Ms F weren't told in the years leading up to the 2014 review, what the charges were or how much they amounted to. I'm persuaded it's more likely than not that they were given some general information about their policy, but likely not enough to fully appreciate how much the policy was costing and how the shortfall was increasing, year on year, between their premium and those charges. I say this bearing in mind that the policy had passed previous reviews, and this suggests to me that it's even less likely that Mr C and Ms F were told that action might be required.

But in 2014, the situation changed. At this point, the policy failed the review. Even though that review indicated that the policy would likely have no value 7 years later, no matter what growth predictions were used, it didn't give an indication of the actual costs and how they may rise.

So I'm not persuaded this letter, on its own, would've given Mr C and Ms F enough information to make an informed decision about what steps to take in relation to their policy. I say this because although it showed them that in future they would very likely be required to make changes to the policy, it didn't allow them to understand what those changes might look like nor, importantly, what changes they could make in response to the 2014 letter to make the policy sustainable for longer. I'm not persuaded Mr C and Ms F could've imagined how big the shortfall already was between the revised premium and the costs of cover without being explicitly told about it.

However, in subsequent correspondence, Ms F was clearly given more information. She was told exactly what the costs were, at that moment in time, and how they related to the premium she would be paying. So she knew that her premium was considerably lower than the monthly charge and therefore should've known that the policy wouldn't be sustained for life. And she was also told, in clear terms, that the premium would need to increase at the next review in 2019. This information, in conjunction with the information she was given as part of the 2014 review, indicated in my view quite clearly that a much more significant change was required at that moment in time if she wanted the policy to last for life.

Ms F didn't surrender the policy at the time and the contemporaneous evidence shows that

she continued to identify a need for the policy. The policy was worth over £15,000 at that point. She didn't decrease the sum assured, or otherwise increase her premium to at least the level of the charges – she only increased it by the amount suggested in the review letter. In other words, despite knowing that the suggested increase was not enough to meet the costs, she didn't take any additional steps to make the policy more sustainable – even though in 2014, she had a number of options available to her.

So I've considered whether I have sufficient evidence to conclude that if Mr C and Ms F had had been given earlier information about the policy, in terms of the costs and possible future risks, they would've made any changes – and I'm not persuaded they would have. Given the situation in 2014, I'm persuaded that Mr C and particularly Ms F wanted to retain the policy for as long as possible on terms which were the same, without increasing the premium or reducing the sum assured. Faced with a negative review which required her to make a change, Ms F agreed to increase the premium – but it's clear to me that this was prompted by the failed review.

However, the guidance and the rules don't say how ReAssure needed to carry out the reviews or whether it needed to force her to take action to amend the terms of the policy, as it did in 2014. The guidance required ReAssure to provide them more information particularly around the costs of the policy and how those costs were no longer being covered by the premium that was being paid. However, it would've left it to Ms F and Mr C to decide what changes they wanted to make to the terms of the policy, if any.

In deciding, on the balance of probabilities, whether that information would've caused Mr C and Ms F to act any differently, I'm persuaded it's fair and reasonable to take into account their actions after the 2014 review, when they were in possession of all the relevant facts.

By not increasing the premiums by more than the minimum amount in 2014, Ms C took the risk that future premium increases were likely to be required – and this was a risk she was willing to take in order to continue benefiting from the cover, for a lower premium, during that period.

In my view, even if Mr C and Ms F were told in earlier years that the premium was no longer enough to meet the life cover costs, they would likely not have taken any action on the policy until they were required to.

By 2019, I acknowledge that Ms F's options for amending the terms of the policy were more limited – but this was a consequence of the increasing costs of life cover, which was a key feature of these policies and clearly highlighted to her in 2014.

For all these reasons, whilst I acknowledge my decision will come as a disappointment to Mr C and Ms F, I don't uphold their complaint."

Mr C and Ms F didn't agree with my provisional decision and provided comments in response. They also provided some additional correspondence and evidence. They said:

- The policy when it was set-up clearly said that both lives are insured and the sum payable on each death was £190,650.

- When Mrs F took over the policy in 2014, she paid the arrears and paid the additional premium she was required to from then on. The review in 2019 still showed "lives covered" as Mr C and Mrs F.

- There was no explanation in the paperwork they had that "in the event of the payment of premiums being maintained at the requested amount, the level of life

cover on both deaths might nonetheless be reduced".

- It wasn't fair that they had fallen victim to ReAssure's "grossly inadequate maintenance of this policy value" and the fact that investment conditions and performance had changed wasn't an excuse. ReAssure had "unilaterally changed the possible outcome" of the policy to the point that it was rendered "worthless", forcing Ms F to relinquish for just over £1,000. This was "grossly unfair".

- My decision on "what is likely to have happened" was "unsafe and unsatisfactory" given ReAssure's conduct. My rejection of the complaint was unjust because doing so meant, essentially, ignoring Ms F's submissions.

- They claimed that they had "wasted premiums" in excess of £71,000 and they received no value for them. Therefore, they said a "just outcome to this dispute would be a refund of those premiums, less the surrender value".

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'd like to thank Ms F and Mr C for their submissions and the additional information they provided. I can confirm that I've read and considered all of that information in its entirety. However, having reconsidered everything again, I'm not persuaded to change my provisional findings.

I see no reason to depart from my overall findings about the standard of ReAssure's communications at the relevant times, so I can confirm them here as final.

This leaves, in my view, the key issue to do with the impact on Ms F and Mr C.

In terms of the issue of the two lives assured, I don't think this is in dispute – I've not seen any evidence to suggest that ReAssure wasn't willing to honour a payment on the second life assured. It was simply the case that the second payment would be predicated on the policy still being in force, and premiums still being paid into it. I'm not persuaded that's materially different to what Ms F and Mr C are saying they thought the policy would provide – after all, it's obvious that the policy, in order to make a second payment on a subsequent death, would still need to be in force and therefore paid into.

I'm also not persuaded that the paperwork doesn't explain the possibility of the life cover being reduced or premiums being increased in the future. I can see that in the original acceptance terms, there is a statement that specifically says:

"*If the plan is near to Maximum Protection the contributions will have to be increased in later years if the cover is to be maintained. The amount of any increase depends on fund performance, mortality experience and expenses."*

So I think that the paperwork did indicate that premiums might need to increase in future – and this was highlighted at the outset. This is also typical of these types of policies and one of the reasons why premiums, at the outset, are more affordable than the alternatives.

But the main issue is Ms F and Mr C's comments that it was unfair for me to look at what would've happened with better communications, particularly in view of the premiums that they say they've wasted on the policy.

I should say firstly that I'm not persuaded that's a fair characterisation of what's happened. The premiums that they paid into the policy have paid for the protection which they benefited from until the policy was surrendered. I'm not persuaded it's fair to say they've received no value for those payments. The only reason they now conclude those premiums were wasted is because there was no claim on the policy in the interim period – otherwise, ReAssure would've paid out over £190,000.

Having identified that something has gone wrong, my role requires me to consider how to put it right. This means looking at the facts and circumstances available and deciding, on the balance of probabilities, what I think would've happened if ReAssure had issued communications that were in line with the standards I set out in my provisional decision. This assessment is done on the balance of probabilities.

In this particular case, as I explained in my provisional decision, I can see that in 2014 the information that I considered Ms F and Mr C ought to have been given earlier, was given to them. That information highlighted the costs of the policy, the likely impact in future (in terms of the policy having no value) and the likelihood of future premium increases being required. It's clear to me that Ms F understood the implications – because she clearly checked that her understanding was correct that the policy would have no value in 7 years' time even if she increased the premium by what was required.

This is persuasive evidence that additional information wouldn't have made a difference – because Ms F, at the time, was clearly intending on paying the minimum amount required to keep the policy in place. As I said in my provisional decision, the standards applicable at the time didn't require ReAssure to advise her or encourage her to pay more into the policy, or establish what was affordable for her. So in my view, even if she had previously been told when the charges were no longer being met by the premium, as was the case in 2014, I'm persuaded Ms F and Mr C wouldn't have done anything differently.

Ms F and Mr C have asked for a refund of the premiums they've paid as a fair outcome, but I don't agree that would be fair and reasonable. For me to conclude that they should be refunded their premiums, I'd need to be satisfied that with fair, clear and not misleading communications, they would've surrendered the policy. But as I've explained, Ms F had all the information she needed in 2014 to understand the future implications with the policy. If she had wanted to surrender the policy as a result of finding out how expensive it would become in future, she could've done so at that time.

My role in looking at Ms F and Mr C's complaint is not to punish ReAssure, so the fact that I've concluded that it did something wrong doesn't automatically mean I should award compensation. I'm sorry to disappoint Ms F and Mr C, because I can understand how strongly they feel about their complaint, but their submissions in response to my provisional decision, as well as the additional information they provided (most of which I had already considered) has not persuaded me to change my conclusions in that regard.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Ms F to

accept or reject my decision before 17 July 2025.

Alessandro Pulzone
Ombudsman