

The complaint

Mrs S is unhappy, in summary, as she doesn't think that ReAssure Limited ('ReAssure') has correctly administered her reviewable Whole of Life policy that she holds with it.

What happened

I've outlined what I think are the key events involved in Mrs S' complaint below.

It isn't in dispute that Mrs S took out a reviewable Whole of Life policy in 2006 for a monthly premium of £17.93 and a sum assured of £30,000. This was on a maximum cover basis – where the sum assured was guaranteed for ten years until the first review – with Legal & General Assurance Society Limited (ReAssure are now responsible for this complaint though, so I will refer to it throughout). It seems the policy initially had an inflation protection option which meant that, by 2015, the sum assured had increased to £39,194 for the same premium amount.

Although ReAssure has said it can't provide a copy, it isn't in dispute that it sent Mrs S a review letter in 2016. At the end of September 2016, ReAssure sent Mrs S a follow up letter, with a review schedule that set out two options. Option 1 was to pay an extra monthly premium of £26.31, taking the total monthly premium to £44.24, to take out an additional policy to maintain the sum assured of just over £39,000. Option 2 was to maintain the current £17.93 premium but for a reduced sum assured of £16,577. And ReAssure said that as it hadn't heard from Mrs S it assumed she wanted to continue with her current premium, so it would reduce the sum assured from the end of November 2016.

Mrs S provided a letter she's said she sent to ReAssure in response, dated 30 September 2016. This said, amongst other things, that its review letter was confusing and she didn't think the premium rise requested of £26.31 was reasonable. Particularly when the sum assured had increased but with the same premium over the last ten years. She asked for alternative options for whole of life policies with guaranteed sums assured of between £20,000 to £40,000 but no increase in premium for life. And she said that, while actioning this, ReAssure should ensure her existing policy continued to have the same sum assured.

Mrs S has said she didn't receive a response. ReAssure has said that it can't trace her letter and that she didn't follow this up with it. And ReAssure again confirmed in a letter to Mrs S dated 26 October 2016 that the sum assured would reduce to £16,577 with effect from the end of November 2016.

I've seen copies of annual statements ReAssure sent Mrs S in 2020, 2021 and 2022. And, amongst other things, the November 2020 statement set out the following:

- The policy surrender value was £690.33.
- While Mrs S' premium was £17.93 an enhanced allocation rate meant it added 54p to this, taking the premium to £18.47.
- £5 of this was used for savings, £2.88 for explicit policy charges and £10.59 was the life cover cost.

On 5 November 2021, Mrs S received a review letter from ReAssure. Some of the key information provided was that:

- Her cover was at risk – the policy wouldn't support the benefits going forwards. If she didn't take action, cover would reduce and eventually end altogether.
- Option 1 (the default option if it didn't hear from her by the end of December 2021) – if her £17.93 premium stayed the same, the sum assured would reduce to £10,940 until the next review in 2026.

As she gets older the cost of cover increases, so if she doesn't increase the premium the sum assured is likely to reduce at further reviews. And in 2026 and 2031, the sum assured for the current premium could reduce to £7,927 and then £6,046.

- Option 2 - increase the premium to £31.16 per month to maintain the current sum assured until 2026. But the increased cost of cover as she gets older means the premium increase would be more significant at future reviews – in 2026 and 2031, the premium for the current sum assured could increase to £47.73 and then £72.00.
- It was guaranteed that Mrs S' cover wouldn't reduce below £3,550.14 as long as she continued to pay the premiums.

Mrs S' late November 2021 annual statement said, amongst other things, that:

- The policy surrender value was £801.31.
- The premium remained the same, as set out above in the 2020 statement.
- £3.93 of this was used for savings, £2.88 for explicit policy charges and £11.66 was the lift cover cost.
- The total premiums paid this year was just under £222, total charges and cost of cover was just under £183 and investment performance had positively impacted the policy value by just over £72.

In December 2021, Mrs S complained to ReAssure. She said her November 2021 annual statement was more positive than the review letter, as it showed the surrender value had slightly increased and that the monthly cost of life cover was well below her current premium. So she didn't see how such a premium increase or cut in the sum assured was justified. And Mrs S asked for any policy changes to be put on hold until it had given her a proper explanation to allow her to consider her position.

In January 2022, ReAssure wrote to Mrs S and said that, following its recent letter, her sum assured had decreased to £10,940 for the same premium of £17.93. In March 2022, ReAssure sent Mrs S its final response letter not upholding her complaint. And, a few months later, Mrs S referred her complaint to our Service and she added, in summary, that she's unhappy with the magnitude of the review changes and thinks ReAssure's 2021 review letter was threatening. She said she'd asked ReAssure to hold any reduction in the sum assured, but it did this anyway without addressing her points about discrepancies in value and cost.

In the meantime, Mrs S' November 2022 annual statement said, amongst other things, that:

- The surrender value of her policy was just under £798.
- The premium remained the same, as set out above. And the total premiums paid
- £7.24 of the premium was used for savings, £2.88 for explicit policy charges and £8.35 was the cost of life cover.

- The total premiums this year was just under £222, total charges and cost of cover was just over £157 and investment performance had negatively impacted the policy value by just under £68.

During Mrs S' complaint, she has added, amongst other things, that:

- In its 2021 review letter ReAssure threatened that the sum assured could become zero, when it has a minimum guaranteed value of just over £3,550 all the while premiums continue to be paid, and not just when these are paid in line with policy reviews, as the guaranteed minimum has nothing to do with increasing the premiums.
- She took out this policy in case something happened – an existing policy was coming to an end in 2006, she'd had an accident in 2002 and her treatment continued, with further surgery in 2013 and 2015, so she was pleased to have the policy. She hasn't been well enough to work since. She has a property she rents out to replace the lack of earned income, but this has a mortgage. So the policy provides peace of mind.
- After the 2016 review she felt the extra amount needed to maintain her current level of cover was excessive and unaffordable, so she complained and didn't pay this.
- She wasn't given enough information and time to take advice and properly weigh up everything on receipt of the review letters before changes were imposed. And she has maintained her premium while awaiting her complaint outcome.

One of our Investigators reviewed Mrs S' complaint and didn't uphold it.

Mrs S didn't agree and asked for an Ombudsman to consider her complaint. She said, in summary, that she has had no numerical explanation for the changes implemented. Her annual statements don't support the premium increases and the decreases in sum assured forced on her. She said that just because ReAssure has no record doesn't mean it didn't receive her 2016 letter – it should tighten its administration systems. And ReAssure again ignored her request for matters to be put on hold following its 2021 review letter. She has continued to pay premiums, rather than surrender the policy, as she doesn't want it to lapse while the dispute is ongoing. It has a still significant, albeit smaller, current value, although this should be much more. And the same reasons she took the policy out for still exist. But if she had been provided with the alternatives she asked for in 2016 then she's likely to have changed the policy then.

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

I issued a provisional decision. I said, in summary, that while I think ReAssure should pay Mrs S £100 in compensation, I'm not asking it do any more than that.

While ReAssure accepted my provisional decision with nothing further to add, Mrs S didn't agree. She said, in summary, that she wouldn't have written to ReAssure in September 2016 and asked for alternative illustrations if she hadn't wanted to seriously consider alternative policies at the time. And that wasn't so much as unaffordable, but totally untenable, for her to pay an extra £26.31 in 2016 to maintain the sum assured when that was for another reviewable whole of life policy that she didn't want. Mrs S said she has continued to document her dissatisfaction with the policy for nine years, since 2016, and a replacement would now be significantly more expensive. And she maintained the premiums while complaining, as she didn't want the policy to lapse during that process.

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 Mrs S will be disappointed, my decision is largely the same as that set out in my provisional decision, which I've repeated again below.

In deciding this complaint I've taken into account the law, any relevant regulatory rules including the principles and good industry practice at the time.

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.

Relevant considerations

In reaching my conclusions, I've considered, amongst other things:

- 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).

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

The key feature of Mrs S' policy is that part of the premiums she was paying throughout the years were to be invested to pay for the increasing costs of life cover later 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. While Mrs S is unhappy with the effect of these increasing costs on the value of the policy and has said that she raised that dissatisfaction at other times in the past, these 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 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 cover costs.

Eventually, 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 Mrs 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 the 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 to do so in an informed way, firms need to provide consumers with clear, fair and not misleading information.

Increasing life cover charges and the reviews of Mrs S' policy

Looking at the available evidence, I can see that from 2013 in the years preceding the first policy review in 2016, the policy cost, including admin charges, was always over £200 and near to or above the total premium cost of £221.64 (being the yearly total of the monthly premium of £18.47 which was made up in the way I've set out above). And I can see that at the point of the 2016 review the policy cost, including admin charges, was just over £225 per year versus premiums paid which again totalled £221.64.

When the sum assured decreased following the 2016 review, the yearly policy cost decreased in 2017 against the same total premium. But by the 2021 review, the cost of the policy, including admin charges, had increased to £163.88. And, in addition, the 2021 annual statement reflects *total* charges and cost of cover as just under £183. While I recognise that at the time this was less than the total yearly premiums, I can see that the cost of the policy, plus admin charges, had steadily increased in the four years since 2017, with the largest increase in the year preceding the 2021 review being at least £23.

Given the rate of increase, I think it's likely ReAssure anticipated that the total cost of cover and admin charges would likely become more than the total premiums paid during the five years following the 2021 review. And that this is why the review failed and Mrs S was given the options she was. I think this is supported by the 2021 review letter which said, for

example, that as Mrs S gets older the cost of cover increases and the policy wouldn't support the benefits going forwards.

So, based on the available evidence, in 2016 the policy was costing more than the premiums and, on balance, I think it's likely this would have also become the case again during the five years following the 2021 review.

What should ReAssure have told Mrs S?

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 Mrs S 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 her 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 by the time of the 2016 review. By giving Mrs S clear information about how much the policy was costing and allowing her 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 Mrs S

I think this is the key aspect of the complaint. Although I don't have evidence of what Mrs S was told in the years leading up to the 2016 review, my experience of these types of complaints suggests that it is likely Mrs S wasn't told what the costs were or how much these amounted to. I think it's likely she was given some general information about her policy, but likely not enough to fully appreciate how much this was costing and that the gap between her premium and the charges was closing year on year.

And it was in 2016 that the situation changed, as that's when the policy failed the review. ReAssure hasn't been able to provide a copy of the 2016 review letter and the follow up letter and schedule only sets out basic information about Mrs S' two options, as set out above. So I've seen nothing to show that ReAssure gave Mrs S an indication of the actual costs, how these might rise and impact on her policy.

In which case, I'm not persuaded that this letter, on its own, would've given Mrs S enough information about the level of costs, a clear explanation that the policy costs were no longer being met by the premiums or of the premiums required to make the policy sustainable for life. Without this, I don't think Mrs S would have been able to make a fully informed decision about her available options, including whether or not she wanted to keep the policy.

I've not seen the annual statements (if any) that were sent to Mrs S prior to 2020. I think these would likely have contained similar information to those I've been provided with though, the details of which I've set out above. In my view, these statements didn't meet Mrs S' information needs. There was no information about the future impact of ever-increasing

charges on the policy – for example a projection over the policy life to show what these might mean for the value of the underlying fund if her premiums remained the same. There was also no other commentary about the policy itself – for example how long it might be sustainable for or what might happen in future if the fund value reduced too much.

The 2021 review letter did provide a bit more information. Although Mrs S again wasn't told the specific level of charges or the premiums required to make the policy sustainable for life, I recognise she was told, for example, in capital letters and bold type at the top of the review letter that her cover was at risk – the policy wouldn't support the benefits going forwards. And that this meant that if she didn't take action the cover would reduce and eventually end altogether. It also said, for example, that as she gets older the cost of cover increases, so if she didn't increase the premium then the sum assured was likely to reduce at further reviews. And it set out what the sum assured could reduce to at the next two five yearly reviews if the premium stayed the same.

So, having taken everything into account, I don't think Mrs S was provided with enough information about the policy relating to the cost of providing cover. Therefore, I think there was an imbalance of knowledge between her and ReAssure, which meant she couldn't make a fully informed decision about what steps she wanted or needed to take following the tipping point being reached.

For completeness, before moving on, Mrs S has said on a few occasions that the 2021 review letter wasn't correct that the sum assured could become zero if she didn't take any action, as it also said the policy has a guarantee that the cover won't reduce below £3,550.14 as long as premiums continue to be paid. To clarify, essentially, there comes a point in the life of the policy when the business accepts that it can payout a minimum amount as long as the policy remains in force. So, in reality, once the sum assured drops to this level, it can't drop any further and the premiums can't go any higher. However, in my experience of similar cases with our Service against ReAssure, it has also explained that the policy might still end up having *no surrender value*, because as time goes on the rest of the pot will be used to pay for this guaranteed sum. But once the pot is depleted, the premium remains in force for life cover only, as long as premiums continue to be paid. And I think ReAssure could have more clearly explained this in its letters to Mrs S. So I think ReAssure should pay Mrs S £100 in compensation – I think this is a fair and reasonable amount in the circumstances to make up for the frustration caused to Mrs S by this.

What, if anything, would Mrs S have done differently?

On balance and for the reasons set out below, having considered what, if anything, I think Mrs S would likely have done if ReAssure had provided all the information it should have, I don't think Mrs S is likely to have done anything differently in the circumstances.

I appreciate Mrs S has more recently said, amongst other things, that she would have seriously considered alternatives and that she only maintained the premiums while complaining over the last nine years, as she didn't want the policy to lapse during that process. But, to recap, when we've previously asked Mrs S about her circumstances and what she would have otherwise done, she has said, amongst other things, that while she feels the sum assured should be more, she doesn't want the policy to lapse. This is because it still has a significant, albeit smaller, current value. And because the same reasons she took the policy out for still exist, which she said were to provide peace of mind that she had some cover for her husband and to cover expenses if something happened to her. Mrs S also previously told us that the additional premium to maintain the sum assured following the 2016 review was, amongst other things, unaffordable for her.

So I think it's clear that Mrs S has still wanted the cover but she likely didn't want to pay any more for it than she has been. And that's despite knowing since 2016 that the sum assured would therefore reduce, and then knowing since 2021 that the sum assured would therefore likely continue to reduce and could become zero. So I maintain that I don't think Mrs S would have taken a different course of action if she'd been given more information and sooner about, for example, how to make the policy sustainable for life. I think she'd have maintained the premium and that the sum assured would have reduced in the way it has.

When reaching this decision, I've taken into account that Mrs S has said she replied to ReAssure's review letters, asking it to put any action on hold, while also asking for illustrations in 2016 for other whole of life policies with guaranteed sums assured but no increase in premium for life and for explanations of the figures – which it didn't provide – for her to consider her options. And that Mrs S has said that if she'd been provided with the alternative illustrations then she's likely to have changed the policy and that a policy elsewhere now would likely be significantly more expensive.

ReAssure has said it didn't receive Mrs S' 2016 letter and she hasn't provided proof of posting, unlike her 2021 letter. Mrs S didn't take any further action in the meantime while waiting to hear back from ReAssure, despite being made aware that if she hadn't given it her decision by the deadline provided – she didn't – then the sum assured would reduce. And even if ReAssure had received Mrs S' 2016 letter and responded with illustrations for alternative policies on the basis Mrs S asked for, I don't think she is likely to have opted for one of these instead. Particularly when bearing in mind what I've set out above about Mrs S' circumstances alongside the consideration that a policy with guaranteed sums assured and no increase in premium for life was likely to be significantly more expensive than her existing policy premium.

In summary, I'm not persuaded that even if ReAssure had provided Mrs S with more information, she would have taken a different course of action. And this means that, while for the reasons set out above I think ReAssure should pay Mrs S £100 in compensation, I'm not asking it to do any more than this.

My final decision

For the reasons given above, my final decision is that ReAssure Limited should pay Mrs S £100 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 30 September 2025.

Holly Jackson
Ombudsman