

The complaint

Mr L complains that The Royal London Mutual Insurance Society Limited (Royal London) didn't apply bonuses to his with-profits policy for over 23 years.

What happened

Our investigator set out the background to the complaint in her recommendation letter, for ease of reference I have included an amended copy of this below.

Mr L had an Option 32 plan with Royal London (formerly CIS) which started in 1992. This policy had a guaranteed basic pension plus discretionary bonuses and a guaranteed minimum pension (GMP).

Mr L said that annual bonuses have not been applied since 2003 nor a final bonus when Mr L took benefits.

Mr L initially complained to Royal London regarding the delay in paying his benefits. Royal London upheld the complaint. And it backdated the annuity payments to Mr L's normal retirement date.

It also paid 8% interest on the tax-free cash (as Mr L had forgone the 3% escalation to get Tax Free Cash instead) and the missed payments. It also paid Mr L £150 compensation for the distress and inconvenience caused.

Mr L also complained about the performance of the policy and that bonuses have not been added. Royal London responded to his complaint and issued a letter on 17 May 2025 about how the guarantees worked. It also explained why bonuses have not been added.

It said that Mr L had two guarantees, the first being the basic pension written into the policy at the start of the policy plus the bonuses that have been added to the policy and a GMP. At his normal retirement date, the higher of the two would be paid but not both. It also explained that in recent years, investment returns have been much lower than the returns Royal London assumed at outset. In addition, expected future investment returns are also much lower than the returns it assumed at outset. As a consequence of the policy's underlying value being (and remaining) significantly less than the value of the guaranteed benefits, it would not be adding any future annual bonuses or a final bonus to the existing guaranteed benefits. This was necessary in order to ensure that all its with-profits policyholders are treated fairly.

Mr L remained unhappy with the response regarding the bonuses and referred his complaint to this service.

Our investigator looked into matters but didn't uphold the complaint. She felt Royal London had acted fairly. She explained that the guarantees payable to Mr L far outweighed the actual value of the policy he had due to investment performance not matching what was expected at the outset. And that Royal London had explained how its with-profits policy would work and that it wouldn't likely be awarding bonuses because of the commitments it

had to pay valuable guarantees.

Mr L responded to say his wife had what he thought was a similar policy yet she was receiving bonuses from Royal London, he couldn't understand why there was a difference.

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.

And having done so I agree with the investigator's findings and broadly for the same reasons.

As Royal London and the investigator has explained to Mr L when his policy first started with CIS it took on the responsibility to provide valuable guarantees at his retirement date. His fund was pooled together with others with the same type of policy, in a with-profits fund with the idea being that the pooled funds would outperform the growth required to provide those guaranteed benefits – and to provide additional benefits through bonuses added to the policy. However, as time went on it became clear that the assumptions made about the growth and the cost of providing the guarantees, meant that the cost of those guarantees were going to outweigh the performance of the underlying fund used to provide all of the customers guarantees. And so Royal London stopped adding bonuses to the policy in 2003.

I've looked at what the terms say about bonuses and they weren't guaranteed, the terms say:

"The CIS invests you transfer value in a wide range of stocks exchange and other investments to provide a basic guaranteed pension which is payable from your normal retirement date together with bonuses representing your policy's share of the profits from its life and pensions business."

"Whilst the level of future bonuses cannot be guaranteed, it is a feature of the CIS that whole of the profits from its life and pensions business must be applied for the sole benefit of its policyowners."

So I don't think Royal London did anything wrong here in not applying a particular bonus or as it happened none at all.

As Royal London set out, the value of Mr L's guarantees at retirement date was significantly more valuable than the value of his share of the pooled funds. As shown below:

Effective Date	Underlying Fund Value	GMP Underpin Value	Transfer Value
19/12/2024	£30,770.86	£56,414.96	£56,414.96
23/05/2025	£24,683.40	£54,335.47	£54,335.47

This means that when Mr L came to take his benefits, Royal London still had to pay the GMP value rather than the actual value of his fund. In essence when it agreed to accept the transfer of his benefits and the guarantees attached, it took the decision on the basis that it could increase the policies with investment returns above the value of the guarantees. In failing to do so Royal London has to make up the difference between the actual value and the value of the guarantees. When it became apparent that the value of the guarantees was going to outweigh the investment returns, Royal London stopped paying bonuses.

I can see that the annual statement in 2020 (This is the earliest statement Royal London holds a record of but it said statements since 2003 said something similar) explained no more bonuses would likely be applied. And that customers could transfer but in doing so

they would lose the guarantees applied to the plan. So Mr L was aware of this situation and the lack of bonuses from 2003, even without any wording, he will have seen no bonus was added. But he chose to remain with Royal London, likely because of the guarantees in play.

Furthermore, Royal London is regulated by the Financial Conduct Authority (the FCA). The FCA requires it to publish a document called "*Principles and Practices of Financial Management*" (PPFM). This document is available online. It explains in detail how Royal London manages its with-profits funds and how it calculates policy values. It includes details about the investment strategy adopted and how it seeks to treat all with-profits policyholders fairly when determining bonus rates.

It is required to operate its with-profits fund in line with its PPFM and it must appoint a with-profits actuary who must comply with rules and guidance. In addition it has a with-profits committee which is responsible for independently assessing the way in which Royal London manages its with-profits business and how it balances the rights and interests of policyholders and shareholders in relation to its with-profits fund. An annual report is also available to policyholders setting out how Royal London has complied with its PPFM.

So there is regulatory oversight of how Royal London is managing its with-profits policies and controls put in place to make sure it is managed fairly. Royal London has been upfront with Mr L about why no more bonuses will be applied and he's been aware of this since 2003. I've seen nothing to suggest it hasn't acted fairly and if Mr L had been unhappy with its stance, he had the opportunity to give up his guarantees in the hope he could outperform them elsewhere but chose to stay with Royal London knowing what he would receive in retirement.

I do understand it must be disappointing not to see your pension grow for such a long period of time but this was due to the high level of guarantees his policy had. This couldn't be met through investment performance, so bonuses stopped.

Mr L has asked why his wife's policy has received bonuses but not his. I can only look at Mr L's policy as part of this complaint and I don't have the details of his wife's policy so I can't give an explanation, I suspect she is in a different ex-CIS with-profits fund but I can only speculate. How his wife's policy works doesn't have any impact on Mr L's policy or complaint but Royal London may be able to provide him with an answer on the differences between the two, if it is important for him to understand the difference.

In conclusion, I've looked at the evidence provided and I don't think Royal London has acted unfairly. It has paid Mr L his entitlement from the policy, making up the shortfall due to worse than expected investment performance. It explained why bonuses would no longer be applied and I think its explanation was fair and reasonable.

My final decision

I do not uphold this complaint and make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 21 October 2025.

Simon Hollingshead
Ombudsman