

The complaint

Ms G complains about changes Aviva Life & Pensions UK Limited (Aviva) made to the sum assured of a reviewable whole of life (RWOL) policy.

What happened

Ms G was advised to take out a RWOL policy by D M Abercrombie & Co (Firm A) with General Accident Linked Life Assurance Limited, for a monthly premium of £25, increasing in line with the Retail Price Index, and a sum assured of £62,113. She signed an application form on 2 July 1987. Aviva are now responsible for the administration of Ms G's policy and I therefore make reference to it going forward.

Within the terms and conditions document for the policy, at page 12 it sets out:

"22 Policy Review

(a) A Policy Review will be carried out by the Company:

- (i) within three months prior to the tenth anniversary of the Commencement Date and thereafter every five years or,*
- (ii) where the Life Assured has attained age 70, within three months prior to each anniversary of the Commencement Date or,*

...

- (c) If following the Policy Review the Company considers the Benefits selected under the Policy cannot be maintained until the next Policy Review then the amount of such Benefits will be reduced to such level as the Company considers can be maintained until the next Policy Review and will be guaranteed until such time."*

I understand the policy commenced in September 1987.

In September 2006 Ms G wrote to Aviva, she said that she didn't think the policy was fit for purpose as she could see the growth of the fund couldn't match the sum assured.

Ms G's premiums increased in line with the Retail Price Index until the end of 2010 when she asked Aviva to reduce the premiums per month to £50. On 7 December 2010 Aviva wrote to Ms G and recommended she seek independent financial advice before making any policy changes. The premiums were then reduced.

In September 2016 Aviva wrote to Ms G to notify her that her premiums ought to have been increasing. They provided Ms G with information about her plan based on continuing to pay £50 per month compared to increasing the monthly premium to £56.98. Ms G agreed to the increase.

Ms G made several withdrawals from the fund during the policy years of 1999-2000, 2007-2008, 2009-2010, 2010-2011, 2013-2014 and 2016-2017 which totalled £9,731.58.

The annual policy reviews of 2018 and 2019 set out that Aviva could guarantee the benefits of the plan to the next review. Each policy review also provided information about how long

Aviva thought the plan could continue to support the level of sum assured. With the 2018 policy review setting two years and 3 months with a 0.8% growth, and the 2019 policy review suggesting one year and three months with a 0.8% growth.

In August 2020 Aviva let Ms G know that the annual policy review had failed. This letter set out that the sum assured could no longer be guaranteed until the next review date. It offered Ms G three options which in summary were:

- Increase the monthly premium to £125.28 per month.
- Reduce the sum assured to £53,188
- The premium and benefit would remain the same, but the sum assured would not be guaranteed. When the fund value runs out, the policy would terminate with no value.

Ms G was unhappy with the letter and raised a complaint. She said that she was never told that the sum assured might be reduced. An extension was given for Ms G to decide which option to choose. Ms G chose to reduce the sum assured, but made it clear she was unhappy to do so.

Aviva issued two final response letters, the first was on 14 September 2020. In relation to Ms G's complaint about the way the policy was sold it said it wasn't responsible as Firm A had sold the policy. On 25 September 2020 it issued a second final response to address Ms G's concerns about the administration of the policy. In summary it said it had administered the policy in line with its terms and conditions. It explained that the premium and fund value were no longer able to support the sum assured, and it was certain that further change would be needed at the next review date.

Ms G remained unhappy and so she referred her complaint to this service. In summary she said:

- She's getting older and has been paying Aviva for a very long time. Aviva either want her to walk away or accept unreasonable conditions.
- She didn't understand why the deduction to the sum assured was so high. She had considered cancelling the policy in 2000 as her son turned 18, but decided not to as she had invested a lot of money in the policy already.

Ms G asked Aviva to simplify the policy and provide her with the original sum assured for the whole of her life.

An Investigator considered Ms G's complaint, they didn't uphold it. In summary they said that Aviva hadn't given Ms G clear, fair and not misleading information about the policy. But concluded that even if Ms G had received clear information from Aviva she would have continued to make the monthly payments. And so, there was no loss caused by Aviva's actions.

I understand Ms G is still paying the monthly premiums after further deductions have been made to the sum assured. She explained that she had sought quotes for other life insurance policies, but she didn't want to move providers, and she couldn't stop making contributions now as she had contributed for too long.

As Ms G didn't agree with the Investigator's assessment the complaint was passed to an Ombudsman for consideration.

I issued my provisional decision; I didn't uphold Ms G's complaint. I appreciate Ms G was disappointed with that outcome, I've considered her comments in response to it. I will now set out my final decision below.

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 appreciate this will come as a disappointment to Ms G, but having done so I'm not upholding her complaint, I will go on to explain why below. My reasoning is largely in-line with my provisional decision.

When considering what's fair and reasonable in the circumstances, I need to take account of relevant law and regulations, regulator's rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice at the relevant time. In reaching my conclusions, I've considered in particular:

- 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).

The key complaint point Ms G has made about her policy is that she is unhappy with changes made to it as the cost of life cover later in life has increased. I'm not able to consider a complaint made about the advice to take out this policy against Aviva – because they didn't provide the advice.

I think it's helpful to explain firstly how RWOL policies generally work in practice. The premiums paid cover the cost of life cover and any charges. Anything above that is invested to build up a fund. At the start, when the cost of life cover is lower, more of the premiums are invested. Generally, as time goes on the cost of the life cover increases as the policyholder gets older. Which means that it's likely there will come a time when the premiums paid no longer meet the costs of the life cover and charges on their own (the tipping point). The investment fund that has been built up is used to help pay the increasing cost of the life cover. However, there inevitably comes a point where the life cover costs exceed the premium and the investment fund is depleted. Unless the fund's growth outpaces the rise in the costs of the life cover.

Eventually the policy provider will conclude that the premiums being paid, and the fund value, are no longer able to support the level of cover. Therefore, to maintain the policy either the premiums being paid will need to increase, usually significantly, and are likely to continue to increase as the consumer gets older and the life cover cost continues to increase. Or the sum assured is reduced by a significant amount. This is what has happened to Ms G's policy. Which has been compounded by the withdrawals that she has made from the fund over the years.

The opportunity for consumers to make decisions about key changes to the policy is a key event in the life of the policy. The decision becomes more difficult to make the longer the consumer pays into the policy and the options available to mitigate poor outcomes start to diminish. Information about a RWOL policy should be provided to consumers in a clear, fair

and not misleading way. With information about the changes later down the line to the policy the consumer might decide on a number of actions:

- To adjust the terms of the policy earlier in its life. For example, by increasing premiums earlier, so more is paid over a longer time creating a smoothing effect. So, premiums will be higher than they were at the start of the policy, but not as high as they might otherwise have been at the point of a failed review.
- A consumer may decide that a policy is not worth maintaining at an earlier point and elect to surrender it.
- Or a consumer may decide that its worth maintaining the policy on its existing terms right up until the point the policy fails a review.

In broad terms I consider it was incumbent on Aviva to have provided the following information in a clear fair and not misleading way to enable Ms G to make an informed decision:

A clear outline of the existing cover – including the sum assured and premiums.

- The current surrender value.
- The life cover costs (including administration charge).
- A clear explanation that the costs were no longer being met by premiums.
- A clear explanation of how long the policy was likely to be sustainable on its existing terms (reasonable approximations would suffice).
- Estimates of what the policy might cost at the point when the policy was likely to cease to be sustainable on its existing terms to give information that would allow Ms G to fully appreciate the risks and consequences of not taking any action.
- A clear explanation of the poor outcomes a consumer might face at the point the policy became unsustainable on its existing terms. This should include a clear outline of the levels by which premiums would need to increase (or the sum assured would need to decrease) to maintain the policy at that point (reasonable approximations or illustrative examples would suffice).
- A clear explanation of the options available to a consumer that were aimed at mitigating that outcome, together with the costs and benefits of each option (including increases in premium levels, decreases in the sum assured or surrender of the policy).

I've been provided with the annual breakdown of total premiums paid and total cost of the life cover. The policy was self-sufficient (the annual premiums covered the cost of the life cover and charges) until September 2018. During the policy year 2018/2019 the total cost of the policy was £717.96 and total premiums paid were £683.76, leaving a shortfall. Which means that at some point during 2018/2019 the policy reached it's 'tipping point'. The point where the premiums needed to be topped up by the fund for the sum assured to be supported. I would expect Aviva to have provided Ms G with the above information within 12 months of this point, in order for her to make an informed decision about what she wanted to do with the policy.

I've considered the communications Aviva sent to Ms G after the end of the 2018/2019 policy year. The 2019 review letter provided Ms G with the current surrender value and an

explanation about how long the policy was likely to be sustainable on the existing terms (between 1 year and 3 months and 1 year and 4 months). Following the failed 2020 review Aviva wrote to Ms G and explained that it was almost certain that further changes would be needed to her policy at the next renewal. So, I can't agree that Aviva provided Ms G with everything she needed in order to make an informed decision about the policy.

I've also considered the points at which Ms G withdrew funds from the policy. Each time she withdrew funds, she reduced the amount of monies available to offset the rising life cover costs. I would have expected Aviva to provide clear information to Ms G about the consequences of those withdrawals, and I can't see that they did.

What would Ms G have done differently?

I've considered what, if anything, Ms G would have done differently if she'd been provided with all the information set out above. Had she been given clear information at the tipping point, or when she made withdrawals from the fund, the options open to her would have been:

- Cash in the policy at the cash in value.
- Increase the premiums to maintain the level of the sum assured.
- Reduce the sum assured.

Ms G has said that she considered surrendering the policy in 2000 when her son turned 18 but decided against it as she had already paid in for several years. She also contacted Aviva in 2006 to express concern about the longevity of the policy. Since the increases to the premiums, Ms G has explained to this service that she has sought out other life cover quotes, but she doesn't want to change provider and surrender this policy. I appreciate that the premiums have been paid for a number of years and so I can understand why Ms G would choose not to surrender the policy. I don't think the decision that she made (to reduce the sum assured) would have changed had Aviva given her clear information at the point the policy could not sustain itself or when she was withdrawing funds. I say that because, based on Ms G's testimony and her communications with Aviva over the years, she is invested in continuing to maintain the policy.

Summary

Aviva didn't sell Ms G the RWOL policy and so I can't consider whether or not it was mis-sold under this complaint, because Aviva are not responsible for the sale. Aviva didn't provide Ms G with all the information I would have expected them to. But, had they done so I think Ms G would still have decided to reduce the sum assured and continued to make the payments.

My final decision

I appreciate this will come as a disappointment to Ms G, but I'm not upholding her complaint about Aviva Life & Pensions UK Limited (Aviva).

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 27 October 2025.

Cassie Lauder
Ombudsman