

The complaint

Mr and Mrs O complain about the commission The Royal London Mutual Insurance Society Limited has paid to third parties in relation to their life assurance policy.

What happened

In 2002 Mr and Mrs O took out a reviewable whole of life assurance policy with Scottish Provident, which is a part of Royal London - for ease of reference I'll just refer to Royal London in my decision. They were sold the policy by an adviser working for a company called Millfield, who was paid initial commission for the advice by Royal London.

In 2011 Mr and Mrs O changed the adviser attached to the plan, to a company called Maze. In 2022 they spoke to Royal London because they'd received review paperwork that set out commission would be paid, and Royal London confirmed a company called Sage/Honister were receiving commission from it. As they didn't recognise that company, Mr O asked Royal London questions about how much Sage had been paid and asked for any amounts they had received to be reinvested in the policy.

After some delay, in 2024 Royal London replied to Mr O's concerns, explaining the history of the advisers attached to his plan. They said that there "*was a novation between companies and not something done by us*" which meant the business receiving the commission changed at the request of the advisory firms. They further explained that there were two types of commission that applied, initial and renewal, both paid for from the initial administration charge on the policy. The initial commission had always been paid to the Millfield or Sage/Honister, where the renewal commission has been paid to Maze from 2011 and to the later advisers Mr and Mrs O had added.

Royal London said the charges on the policy would have remained the same regardless of the commission, so didn't uphold the complaint about commission and didn't tell Mr O how much had been paid to Sage/Honister. However, they offered £200 for the delays they'd caused. Mr and Mrs O remained unhappy and brought the complaint to our service. An investigator considered their complaint and found the offer was fair, as commission is usually an agreement between the product provider and adviser, and even when it's not paid, the charges on the plan would remain the same. Mr and Mrs O disagreed, in summary making the following points:

- As far as they could tell, Sage/Honister were no longer trading and had become insolvent in 2013, so they didn't understand how commission could still be payable.
- The paperwork they'd received had made it clear that the commission payable could impact the surrender value – so they felt it was likely that the charges would have been different had commission not be payable.
- While Royal London had offered £200, they hadn't answered many of their questions.

As the investigator wasn't persuaded to change their mind, the complaint was passed to me for a decision. I requested further information from Royal London, and they confirmed the following:

- They do not have a copy of the request they received to change the servicing agent from Millbank to Sage/Honister. They explained the requests from advisers can be bulk requests for numerous clients and it is the responsibility of the adviser to ensure clients are updated on the change in servicing agent.
- They provided evidence of who has received commission over the life of the policy. Each recipient of commission is referred to by an agency reference and the current agency reference attached is '55555'. Royal London confirmed this is an internal code meaning that no agent is attached and so no commission is currently payable.
- This also showed the amounts paid as commission. The initial commission paid was:

Date	Amount	Reason
11/09/2002	£286.77	new policy
09/09/2003	£4.74	indexation
09/09/2004	£6.06	indexation
11/09/2005	£7.36	indexation
10/09/2006	£6.59	indexation
09/09/2007	£3.55	indexation
09/09/2008	£5.32	indexation
09/09/2009	£3.35	indexation
09/09/2010	£22.21	indexation
11/09/2011	£24.90	indexation
10/09/2017	£599.07	review

- The renewal commission was paid frequently and in very small increments so I won't detail it here, but I can confirm it totalled around £225 over the life of the policy, up until February 2024 when it stopped being paid.
- Regarding the calculation of the initial administration charge, Royal London confirmed that it isn't the exact amount of the initial commission payable – but it is designed to cover the costs of any initial and renewal commission. The formula to calculate the charge includes factors such as the customer's age and the policy's duration in force to date, and the calculation of the charge is set across the portfolio of these whole of life policies, so a common mechanism applies for calculating this charge when it applies.

Following receipt of that information I issued a provisional decision as follows.

My provisional decision

"In my view, the questions I need to answer here are whether it is fair and reasonable for Royal London to deduct the initial administration charge from the policy to pay commission, and whether they've given Mr and Mrs O clear fair and not misleading information about it.

I've begun by considering the terms and conditions, and section 2.7 says:

(a) We will make a charge, on a Charge Date, for:

- *an Initial Administration Charge,*
- *the Plan Fee,*
- *any Benefits included in the Schedule, and any unpaid charge carried forward from the previous Charge Date.*

Charge Dates will be at monthly intervals.

Royal London has confirmed that the commission is accounted for under the initial administration charge, which is described later in 2.7 as:

(b) An Initial Administration Charge will be due on:

- the first Due Date, when the amount will depend on the Premium on that date,
- each Option Date (see Section 2.4 – Indexation and Estate Value Increase Options), when the amount will depend on the increase in Premium on that date, and
- each Review Date (see Section 2.5 – Policy Reviews), when the amount will depend on the increase in Premium, if any, on that date.

The amounts of the initial administration charges were as follows:

- In 2002 it was £1,031.
- Between 2003 and 2011 the policy was index-linked so a charge would have applied at each point the premium increased, but I don't have a breakdown of each amount.
- In 2017 when the premiums were increased following a review, the charge was £642.
- In 2022 when the premiums were increased following a review, the charge was £731.

That's in line with the way the charge is set out in the terms. There's no dispute that the reason for this charge is to pay commission. I can see that Mr and Mrs O are concerned about the firms who have received initial commission under this policy, firstly because they had no relationship with them and secondly because they appear to no longer be trading. In order to explain my approach to this, it will help if I first set out a short overview of the commercial practices of insurers and advisory firms and how they interact with each other.

Generally, when an insurer designs a policy, the charges they include are intended to cover any costs they are likely to incur while running all the policies of that type and also to allow for some profit. One of the costs that insurers incur in running these policies is the commission that they pay to advisers and other sellers of the product.

When insurance companies have an agreement with advisers to pay them commission for selling policies, each advisory company will have their own agreement with the insurer, known as an agency agreement. The amount of commission paid to the adviser is not usually a direct payment from each individual policy. Instead, the charges are paid to the insurer, and they separately pay the advisers – though Royal London do keep track of how much commission is attributed to each individual policy.

It is possible for advisory firms to agree to change the recipient of commission. For instance, if an advisory firm is closing down or simply wants to raise capital, they may sell the whole or part of a book of their clients to another firm. That firm then takes over the agency agreement and receives the commission that would previously have gone to the original adviser. This isn't unusual - the income advisers receive from these types of policies has a value and firms can receive a lump sum in return for it.

The commission information provided by Royal London shows the recipient of each commission payment, not by using their name but instead by referring to the agency agreement number. The same agency agreement number is associated with all the initial commission paid throughout – until 2022 when the agency reference changed to 55555. The renewal commission was paid to the same firm as the initial commission, until 2011 when it was changed to Mr and Mrs O's new adviser.

I can see that Millfield appear to have entered into administration in 2006, around the time they stopped being regulated by the FSA (the predecessor to the FCA). Royal London have

mentioned they think Millfield and Sage/Honister were part of the same group. I've not been able to find evidence of this through Companies House or the FCA's register of firms. However as set out above, it's also possible that Millfield sold their client book to Sage/Honister at some point.

It's naturally confusing and concerning to Mr and Mrs O that a firm they've never heard of has been receiving payments in relation to their policy. In my view, it's reasonable for Royal London to rely on requests from advisers setting out a change of agency. I consider the responsibility for letting clients know about this change lies with the adviser. So Royal London wouldn't have needed to let customers know, as they would reasonably expect the advisers to do that. While I appreciate Mr and Mrs O's worry and confusion given they had no previous knowledge of Sage or Honister, I wouldn't be able to say Royal London has done something wrong in paying that firm commission.

I've gone on to consider whether Royal London should be paying a company who appears to no longer be trading. In their final response letter, Royal London said "Sage Financial Services/Honister Ltd" have been receiving the commission. Sage Financial Services stopped being a regulated firm in 2013 and Honister in 2017.

However, I can see that a different company, Sage Financial Services **Limited** was a principal firm of Honister Limited and was regulated by the FCA until October 2017. Sage Financial Services Limited appears to be unconnected to Sage Financial Services. As Royal London has talked about Sage and Honister together, I believe the actual recipient of the commission was Sage Financial Services Limited, given there's a relationship between those two companies as principal and appointed representative.

The last time Sage/Honister received commission from Royal London in relation to Mr and Mrs O's policy was in September 2017. So, it seems Royal London only paid commission to companies who were trading at the relevant time.

Royal London has said that the initial administration charge wouldn't change regardless of whether commission is being paid in relation to Mr and Mrs O's policy. I understand that Mr and Mrs O have pointed to the letters they've received, which they feel state that the payment of commission has a direct impact on their surrender value.

The letters do say that the charges have an impact and that the charges are in part designed to pay commission. However, the commission isn't a direct payment from their policy, which is shown by the fact the charges are higher than any of the commission amounts paid. So, I'm satisfied the payment of commission doesn't have an impact on their surrender value.

This is normal across industry for this type of product and I consider it to be a reasonable approach. This is because the charges are built into the design of the policy – and part of that design is to ensure that Royal London can pay the overall commission they've agreed to pay to third parties. Mr and Mrs O agreed to the terms when they took the policy out which included an agreement to pay the charges. The charges aren't contingent on the commission continuing to be paid in relation to one individual policy.

The commission agreements are at Royal London's discretion and the charges on an individual policy wouldn't change even if the commission stopped being paid in relation to that single policy. Having considered everything, I'm satisfied Royal London doesn't need to refund the charges or the commission they've paid third parties, to Mr and Mrs O.

However, I am persuaded that Royal London could have done more to explain things to Mr and Mrs O more clearly, and faster, than they did. In considering compensation for this, I've taken into account the following:

- *It took Royal London two years to answer Mr and Mrs O's questions about the firms attached to their policy and why commission was paid to firms they had no connection with.*
- *The number of times Mr and Mrs O had to contact Royal London to chase them.*
- *That Royal London refused to give them information about the commission paid, which I believe would have been helpful to explain how the commission is not a direct deduction from their policy – particularly proving the amounts of commission were less than the charges would have been helpful to illustrate this.*
- *Unnecessary confusion has been caused by referring to Sage Financial Services, a company who hasn't traded since 2013, rather than Sage Financial Services Limited.*

Overall, I'm satisfied an amount of £500 (including the £200 already offered) would be fair and reasonable here to account for the distress and inconvenience Royal London has caused.

Replies to my provisional decision

Royal London accepted the provisional decision. Mr and Mrs O replied and in summary said:

- They now have a clearer understanding of the charges applicable and explained that their confusion was caused by the charge being called an "initial" charge, despite the fact it applies throughout the term of the policy, at the indexation and review dates.
- They clarified their concerns were specifically about the 2017 and 2022 commission.
- Since 2011 no commission should have been payable as their advisers have provided instructions that their involvement was for the purpose of obtaining information only and not for the payment of commission.
- They still feel that the payment of commission affects the surrender value especially as the review letters confirm that it does.

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, I've reached the same conclusion as set out in my provisional decision above, which forms part of my final decision. I'm glad to hear that Mr and Mrs O now have a better understanding of their plan and I'll address their outstanding points.

Regarding the information Mr and Mrs O were given in the letters, about commission impacting the surrender value. I believe they are referring to a 13-page letter dated 10 August 2022 which enclosed quotes for a £700,000 and a £900,000 sum assured. On page 6 (and mirrored on page 11 in the second quote) there's a section titled "*What will the charges be on our plan?*" detailing deductions of an initial administration charge, a bid/offer spread, a management charge, a monthly policy fee and the cost of the protection benefits.

Following this, there's a table setting out the impact of the deductions and then there's a section (on pages 7 and 12) which is titled "*What are the deductions for?*". That's the section that I believe Mr and Mrs O are specifically referencing, as it says: "*The deductions include the cost of the protection benefits, commission, expenses, charges and other adjustments.*" It goes on to explain the effect of the deductions.

I appreciate when taken in isolation, pages 7 and 12 appear to say the commission is a direct deduction from the policy. In my view, that section is designed to be read in

conjunction with the sections above it, as it elaborates on the charges and what they are used for. When read in line with the charges information on pages 6 and 11, it sets out what elements the charges are funding.

So, while I appreciate Mr and Mrs O's confusion, the information in the quote hasn't changed my opinion about the operation of the charges, and the way commission is accounted for. In practice the commission isn't a direct deduction from their plan.

Regarding the ongoing payment of commission after 2011. The instructions they've given about their new advisers wouldn't have impacted the initial commission payable following a review. The initial commission is governed by the agreement between the original advisers and Royal London, rather than instructions given by policyholders. So, I'm not persuaded that it's unreasonable for Royal London to have paid initial commission in 2017 at the review. No initial commission was paid to an adviser at the review in 2022.

Ultimately, the initial administration charge is payable regardless of the payment of commission to third parties in relation to the policy, as it's part of the design of the policy to cover Royal London's expenses. So even if Royal London had paid commission to an incorrect third party, it wouldn't be an amount that I'd expect them to refund directly to Mr and Mrs O's policy value. Overall, I find that Royal London have acted fairly and reasonably in relation to the application of the initial administration charge on the policy, so Mr and Mrs O haven't been caused any financial loss here.

As I've received no submissions regarding the amount of compensation for the distress and inconvenience caused, I see no reason to depart from the findings I set out in my provisional decision on this point. I'm satisfied that Royal London caused unnecessary, material, inconvenience and confusion here, and that £500 is a fair amount of compensation to account for that.

My final decision

I uphold the complaint for the reasons set out above. The Royal London Mutual Insurance Society Limited should pay Mr and Mrs O £500 for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O and Mrs O to accept or reject my decision before 24 December 2025.

Katie Haywood
Ombudsman