DRN-6021848

The complaint

Mrs S is unhappy with the administration of her reviewable whole of life (RWOL) policy held with ReAssure Limited (ReAssure).

What happened

Mrs S took out a RWOL policy which commenced on 8 March 1990 on a standard basis. The sum assured was £40,000 with a monthly premium of £26.76.

I've been provided with a copy of the policy document, at point 7 this document sets out that reviews will be carried out at the '*Review dates*'. Review dates are specified as the tenth anniversary of the commencement date of the policy and every five years after until the life assured reaches age 70, at which point the provider can choose to review the policy annually. The term allows the provider to decrease the sum assured in the event of a failed review – and allows for the premium to be increased should Mrs S instruct it rather than the benefit decrease.

In 2010 Mrs S's policy failed its review and she was given two options:

A. Increase the monthly premium to £44.61 per month from £26.76 per month to maintain a £40,000 sum assured.
B. Reduce the sum assured from £40,000 to £32,118.

The review set out that should ReAssure not hear from Mrs S then ReAssure would reduce the sum assured to £32,118. I understand that Mrs S decided to increase the premium to £44.61 per month to maintain the sum assured.

Mrs S's policy failed the next review that was carried out in January 2015, she again chose to increase the premium to £49.16 per month to maintain the sum assured of £40,000. In 2020 and 2022 the policy passed the reviews and so no changes were made to it.

The policy failed the review carried out in January 2023, three options were given to Mrs S which were:

- Decrease the sum assured to £36,792 with the same monthly premium of £49.16.
- Maintain the sum assured at £40,000 with an increase monthly premium of £65.34.
- Surrender the policy. The cash in value was noted as £12,058.31.

I understand Mrs S chose to increase the monthly premium to maintain the sum assured. In January 2024 the policy failed the review. ReAssure provided Mrs S with three options again, in order to maintain the sum assured Mrs S would have needed to increase her monthly premiums to £164.38.

Mrs S has said that this was unaffordable, she referred a complaint to ReAssure. She said she needed to reconsider her options as she didn't know this could happen, in summary she said:

- There had been a large increase in premium in 2024.
- A decrease in the sum assured in 2013.
- She was mis-sold the policy.

The sale of the policy has been dealt with separately and so I won't mention it again throughout this decision.

Mrs S surrendered the policy, she said she was disappointed at needing to do so as she was left without protection for her family.

ReAssure issued their final response letter in February 2024, they didn't uphold Mrs S's complaint. They explained that they carry out reviews in line with the terms and conditions of the policy Mrs S has. And that the reviews carried out were accurate, that as consumers age the cost of life cover increases and so changes were needed to Mrs S's policy.

Mrs S wasn't happy with the response and so she referred her complaint to this service. An Investigator considered Mrs S's complaint and they issued an initial view, but then changed their opinion so issued a second view. Within the second view they upheld Mrs S's complaint, in summary they said:

- Mrs S's policy reached the 'tipping point' in March 2020 and so ReAssure should have provided her with information about the future of her policy within 12 months of this date.
- Had they done so Mrs S would have surrendered her policy.
- ReAssure should calculate the following:

A. The surrender value of her policy in March 2021. Plus 8% simple interest per annum from March 2021 to the date of settlement.
B. All premiums Mrs S paid since March 2021 to the date of settlement. Add 8% simple interest per month on each payment from the date Mrs S paid to the date of settlement.
C. Add A + B
D. Deduct the actual surrender value Mrs S received from C from the calculation on the date it was actually paid. If the value is positive then this should be paid to Mrs S, if it is negative then no compensation is payable.

ReAssure didn't agree with the assessment, they said that Mrs S wanted the sum assured to protect her family. So, she would have continued to pay the monthly premiums to receive that cover until it became unaffordable in March 2024. They asked for an Ombudsman to review the complaint.

I issued my provisional decision, ReAssure accepted it and didn't add any further comments. Mrs S explained she didn't agree with the provisional decision. She mentioned that she had been mis-sold this policy and had she been provided with information about the future of the policy in March 2021 she would have surrendered it. As set out above I am not considering the sale of this policy within this decision.

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’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’m not upholding Mrs S’s complaint, my reasoning is largely a repeat of that within my provisional decision which I will set out below. Whilst I have considered everything that has been provided to this service, I don’t intend on commenting on each item. Instead, I will focus on what I have determined are the key aspects of the complaint.

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 Mrs S has made about her policy is that she is unhappy that the premium would have needed to increase significantly in 2024 following the failed review.

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. Mrs S’s policy was taken out on a standard basis. So, some of the premiums were invested and when surrendered there was a sum paid out to Mrs S.

Generally, at the start, when the cost of life cover is lower, more of the premiums are invested. 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.

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 ReAssure to have provided the following information in a clear fair and not misleading way to enable Mrs S 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 Mrs S 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 of Mrs S' plan. The total cost of the plan in March 2020 was £52.30 per month, the premiums paid were £48.16. So, the policy had reached its tipping point. So, I would have expected ReAssure to provide Mrs S with the above information about her policy by March 2021.

I've considered the correspondence that was sent to Mrs S at this time. The review of March 2020 provided Mrs S with the current sum assured, monthly premiums and let her know that the sum assured could be guaranteed until her next review in March 2022. I can't see that ReAssure explained to Mrs S that the costs were no longer being met by the premiums she was paying – or let her know when future changes may be needed to the policy or what those changes may look like. As such I can't agree that ReAssure provided Mrs S with clear, fair and not misleading information within 12 months of her policy's tipping point in March 2020.

What would Mrs S have done differently?

I've considered what, if anything, Mrs S 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, the options open to her would have been:

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

Mrs S has said that she wanted the life assurance to protect her family, and that need for the cover hasn't changed. She explained that she was really disappointed that the increase in March 2024 was so substantial that the policy became unaffordable for her to maintain. She said that it didn't make sense to continue with the policy when she considered putting the money aside instead.

I've carefully considered what I think Mrs S would likely have done in March 2021 had she been told what the future of her policy would look like. Namely that her premium would need to increase significantly in the future. At the time Mrs S was paying £49.15 per month for life cover in the sum of £40,000. At the time she wanted the cover as she has explained that she took it to protect her family, and she increased her payments in March 2023 to £65.34 to maintain that level cover. So, I don't think she would ever have chosen to reduce the benefits to increase the length of time the policy would remain sustainable. And, I don't think she would have cashed in the policy either. I say that because she wanted the life cover and was disappointed when she had to surrender the policy. So, the only other option available to her would have been to increase the premiums to maintain the level of the cover she had. But the increase would have needed to be significant – which I don't think would have been affordable for Mrs S.

I appreciate Mrs S is adamant that she would have surrendered the policy in March 2021. However, she has made it clear that the benefits of the policy are valuable to her, at the time the premiums remained affordable – as was the increase in 2023 in order to maintain those benefits. And so on balance for the reasons set out above I therefore think it's most likely that Mrs S would have continued to make the monthly premiums to retain £40,000 worth of cover until the policy became unaffordable. As this is what she did do – I'm not asking ReAssure to do anything.

Summary

ReAssure should have provided Mrs S more information about the future of her policy in March 2021 than they did. But, had they done so I don't think Mrs S would have done anything differently than she did – which was to retain £40,000 life cover until it became unaffordable.

My final decision

I don't uphold Mrs S's complaint about ReAssure Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 12 January 2026.

Cassie Lauder
Ombudsman