

The complaint

Mr L – represented by an attorney appointed to act on his behalf, who I will refer to for ease as Mr A – is unhappy, in summary, as he doesn't think Phoenix Life Limited ('Phoenix Life') has correctly administered the reviewable whole of life policy that's held with it.

What happened

I've outlined what I think are the key events and points involved in the complaint below.

In 1989 a type of reviewable whole of life policy (a 'Flexible Protection Plan') was taken out, which Phoenix Life is now responsible for. The policy was subject to a review at the 10-year anniversary and then regularly thereafter. It had an initial sum assured of £25,000 for a monthly premium of £20 and it appears to have been set up to have its sum assured automatically increase annually at a fixed rate, which in turn would increase the premium.

The 1999 and 2004 reviews 'passed', requiring no changes. But the 2009 review 'failed', along with every review since then.

The 2009 review letter said, amongst other things, that each review looks at whether the sum assured can be maintained until the next review based on the premium paid. And that it takes into account several factors including any cash value, possible future growth to the next review and the cost of maintaining the current level of cover until then. The letter said that, having taken into account the automatic annual increase in cover, the policy's existing sum assured of just over £63,100 couldn't be maintained and would need to reduce to just over £60,100, seemingly for a monthly premium of just over £73. Options given were to take no action which would mean the sum assured would reduce (the default option), or to return the reply slip to take out a new Flexible Protection Plan to bring the total sum assured back to its existing amount. And the default option was seemingly applied.

The 2014 review letter said the premiums weren't sufficient to maintain the current benefits. And, along with the enclosed frequently asked questions ('FAQ') sheet, it also said Phoenix Life had reviewed the policy by projecting it forward to the next review date, having allowed for future premiums and charges and assumptions about investment growth. It said that economic conditions are now very different from when the policy began and that as the life assured gets older the cost of providing the benefit rises. It also said that:

'Since the cost of providing the protection benefits on your policy rise as you get older, it is possible that the true cost of your life cover may already exceed the premium you are paying, or may start to do so at some point in the future. We do take your policy's existing unit value into account when determining whether your cover can be maintained until your next review date and so this sometimes allows your life cover to be maintained even where the cost of your life cover is greater than the premium you are paying...'

'If a reduction in cover is required now then a further change may be necessary at a future review date. Even if your cover has been reduced and all our assumptions are borne out in practice then it is likely that another reduction in cover may be required at the next review.'

The 2019 review letter and the enclosed FAQ sheet contained similar, if not the same, information about the way the reviews worked as the 2014 review letter set out above. And, as well as setting out that Phoenix Life had reviewed the policy to the next review date, this also said Mr L had the option to change the basis of the review, as he could ask for it to be calculated based on a specified term or age. And Mr L was told that:

'You have the option to request an estimate of the premium which would be needed to support the life cover to a specified age or over a selected number of years. For example, if you wanted to try to ensure that your policy would continue to provide your life cover until you were over 100 years old, you could ask us for an estimate of the premium which might be required to support this. The estimate provided would not represent a guarantee of cover for the specified age or selected number of years.'

The letter also said that, after including the annual automatic increase, the existing sum assured was just under £100,900 and the increased monthly premium was just under £170. But this premium wasn't sufficient to maintain this sum assured, so action was needed. Options given were to stop paying the premium, surrender the policy, take no action which would mean the sum assured would reduce to just over £98,200 for the same premium (the default option) or to ask for a quotation to take out a new Flexible Protection Plan to bring the total sum assured back to its current amount. And that its possible further reductions will be needed at the next review. The default option was then seemingly applied.

The 2024 review letter and FAQ sheet again contained similar, if not the same, information about how the reviews worked as the 2019 review letter, as set out above. The 2024 letter said that the current premium of just under £207 wasn't sufficient to maintain existing sum assured of just over £108,300 – both of which had seemingly risen since the last review due to the annual increase – so action was needed. And that its possible further reductions will be needed at the next review. Options given were to stop paying the premiums, surrender the policy, take no action which would mean the sum assured would reduce to just over £79,200 for the same premium (the default option) or to ask for a quotation to take out a new Flexible Protection Plan.

Following a reminder letter from Phoenix Life, Mr A got in touch with it at the end of June 2024 to find out how much it would cost to maintain Mr L's existing sum assured. And, after Mr A chased Phoenix Life, at the end of July 2025 it sent a quote for a supplementary policy to bring Mr L's total sum assured back to the existing amount of just over £108,300. In this, the minimum and maximum monthly premiums quoted were respectively around £160 and £270 for a sum assured of just over £29,000. And Mr L was later told it wasn't possible to top up the existing policy rather than taking out a supplementary one.

Unhappy with the time taken, that he'd had to chase Phoenix Life and that the sum assured had reduced so significantly in the 2024 review, Mr A raised a complaint with it.

Phoenix Life sent its final responses at the end of August 2024. It recognised that, while the requested quote had to be sent to its actuarial team, this took some time and Mr A chased it several times, causing frustration. It said its actuaries confirmed that a supplementary policy on the same terms as the main policy was the only option to maintain the pre-review level of cover. It recognised Mr A didn't receive a call back when he was told he would. It apologised for the service received and the time taken to receive the requested information and it offered £150 in compensation. Phoenix Life also went on to explain how policies such as Mr L's work and that the monthly mortality charges in July 2024 prior to the reduction in cover, and in August 2024 following the reduction, were respectively £299 and £213.70 and therefore more than the monthly premium being paid.

I understand Mr L didn't go ahead with a supplementary policy and that the existing policy has remained in place, but with the reduced sum assured of just over £79,200.

Unhappy with Phoenix Life's responses though, Mr A referred the complaint to our Service and said, in summary, that the contact he received from Phoenix Life had been poor and he is unhappy with the extent of the required change in premium and sum assured at the 2024 review. Mr A said he thought the monthly premium would go up and that the sum assured would stay as it was or rise slightly as at previous reviews. And that this reduction has caused Mr L, who I understand has been unwell and supported by Mr A for several years, upset and stress about why Phoenix Life is allowed to reduce the sum assured and when a lot of money has been paid towards the policy.

One of our Investigators reviewed Mr L's complaint. And when Mr A was asked what action Mr L would have taken had he been told by Phoenix Life sooner that the charges had overtaken the premiums, Mr A said this would have been discussed with a financial adviser and that Mr L would have carried on with the policy, assuming the premium was going to go up along with the sum assured as had happened previously. Mr A said a lot of money had been paid towards the policy and the surrender value was equivalent to two to three years' worth of premiums, so surrendering wouldn't have been an option.

Our Investigator went on to issue their findings. In respect of the service provided, they said it is accepted that this was below standards reasonably expected which impacted Mr L, but that they felt the £150 offered for this is fair in the circumstances. In respect of the reviews and the way Phoenix Life managed the policy, our Investigator said it ought reasonably to have known since around 2021 that significant changes would likely be needed to the premiums or level of cover as Mr L got older, as the cost had started to outweigh the premiums paid. But that, while Phoenix Life's correspondence didn't meet regulatory obligations and standards of good practice, even if it had provided the information it should have, they weren't persuaded Mr L would likely have done anything differently. Although they said Phoenix Life should pay Mr L a further £250 in compensation for the surprise and upset at finding out the sum assured needed to reduce to the extent it did in 2024, when he could have been prepared as to that sooner by it.

Phoenix Life accepted our Investigator's findings, but Mr A didn't agree. He said, in summary, that he wasn't willing to accept this outcome when he felt Mr L had been conned out of thousands of pounds and because he wanted to ensure this didn't happen to others, when it likely already has.

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

I let Mr A know, in summary, that, while I understand this will be disappointing for Mr L and I appreciate his position, I didn't intend to ask Phoenix Life to do anything further on top of the £150 in compensation it had already offered for the service issues experienced surrounding the supplementary quote. I said that, while I recognise Mr L is unhappy with the extent of the decrease in the sum assured in the 2024 review letter, the surprise at receiving that isn't something I'd usually tell Phoenix Life to compensate for in the circumstances. The decrease was still accepted and I think he'd likely be in the same position now if Phoenix Life had provided him with the information it should have and sooner.

Mr A didn't agree. He said that given the service he received from Phoenix Life and how much had been paid into the policy, he didn't think it was fair that we weren't going to ask it to pay any further compensation. And when bearing mind the extent of the drop in the sum assured at the 2024 review – which was by around a third – when in the run up to that the premium and sum assured had still gone up every year. Mr A didn't go on to provide any further responses or information by the extended deadlines given.

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, while I understand Mr L will be disappointed and I appreciate his circumstances, I'm not asking Phoenix Life to do anything further for the following reasons.

While I've carefully considered the entirety of the submissions the parties have provided, my decision focuses on what I consider to be the crux of the matter in this case. Being Mr L's unhappiness with the extent of the changes required at the 2024 review. 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.

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

Mr A has highlighted that Mr L is unhappy with the extent of the drop in the sum assured at the 2024 review when the premium and sum assured had gone up every year prior to that. So I think it's important to explain that policy reviews are a separate process to the automatic annual increases I think Mr A is referring to here (albeit the results may be combined if due at the same time). As set out above, Phoenix Life has said the annual increases here were at a fixed rate in respect of the sum assured. Whereas reviews focus on whether or not Phoenix Life thinks the premiums paid can support the policy's sum assured until the next review date and, if not, then what action was required.

In respect of the 2024 review, I can see that the policy terms set out, in summary, that the plan is reviewable and that if Phoenix Life determines the sum assured can't be maintained until the next review then it can reduce the level of cover. So Phoenix Life is entitled to review the policy, including the level of cover, in the way it has. And, while I appreciate Mr L's position, I've seen no evidence that the extent of the reduction in the sum assured in this case wasn't a legitimate exercise of Phoenix Life's commercial judgement. And I think it has done this following a typical process, run by industry professionals.

I think it's helpful at this point though if I explain more about how the policy works and what I think Phoenix Life should have done, if anything. The key feature of this policy is that part of the premiums Mr L 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. So, while I appreciate Mr L is unhappy with the effect of these increasing costs on the value of the policy, 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 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, as in Mr L's case. To maintain the existing level of cover, substantial additional premiums will need to be paid with further amounts being needed each year as the consumers get older and the life cover costs increase accordingly, unless the sum assured has been substantially reduced.

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 additional premiums are 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 that occur at that point can be mitigated by adjusting the terms of the cover earlier in the life of the policy. If, for instance, a consumer elects to pay additional 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 total 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 a 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 what should Phoenix Life have told Mr L?

Looking at the available evidence, I can see in March 2021 monthly mortality cost for Mr L's policy was just over £195 and therefore higher than his monthly premium of just under £187

at that time. And, since early 2022, the policy's mortality costs have consistently remained higher than the premiums being paid. So, based on the available evidence, the policy has been costing more than the premiums paid since 2021.

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 Phoenix Life should have taken steps to ensure it communicated information to enable Mr L to evaluate the impact of the increasing life cover costs on his policy and the options available to his 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 clear timelines for the making of decisions where applicable.

In my view, this is something that Phoenix Life 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 in 2021. By giving Mr L clear information about how much the policy was costing and allowing him to compare those costs with the premiums being paid, Phoenix Life 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 Phoenix Life give Mr L?

Within a reasonable timescale after the tipping point was reached, Phoenix Life had an opportunity to provide Mr L with clear information to enable him to consider his options and make a timely decision. Particularly given that, with each year that passed, cover costs would likely continue to increase, making any potential mitigating steps more costly than these otherwise would be over time.

I think Phoenix Life should've provided the information I previously outlined in a clear and accurate format, along with clear information about the options available to Mr L, together with the costs and benefits as well as time frames for reply. And not in a passive way that required the consumer to draw important inferences for themselves. Even if precise numerical information about the costs of those options could not be given, then at the very least I would expect to see reasonable approximations or illustrative examples so that he could reasonably appreciate the importance of considering his options at that point.

As set out above, the review letters provided Mr L with some information. For example, that the reviews are to determine if Phoenix Life can carry on providing the same level of cover based on the Mr L's current plan value and premiums, and that it couldn't continue to provide this. And that the cost of providing the cover rises with age and might already exceed the premium being paid. But I can't see that Mr L was given an explanation that the policy costs were higher than the premiums being paid in his case.

Phoenix Life should have given Mr L sufficient and clearly explained details for him to appreciate how much his policy was costing and that the gap between the premium and the charges had closed, for example, for him to make an informed decision. And I can't see that Mr L was given any reasonable approximations or illustrative examples to know the impact of deductions on the plan or what additional premium was needed to make the existing level of cover sustainable for life, for example.

Therefore, I think there was an imbalance of knowledge between Mr L and Phoenix Life, which meant he couldn't make a fully informed decision about what steps he wanted or needed to take following the tipping point being reached. That being said though, I'm not asking Phoenix Life to do anything further for the reasons given below.

What, if anything, would Mr L have done differently?

Had Mr L been given clear, fair and not misleading information, the options open to him at that point would have been to surrender the policy for the cash in value, pay an additional premium to maintain the total sum assured via a supplementary policy, reduce the sum assured or take no action.

On balance and for the reasons set out below, having considered all the submissions and information to decide what, if anything, I think would have likely happened if Phoenix Life had provided Mr L with clear, fair and not misleading information in the way it should have, I don't think it's likely that anything would have been done differently in the circumstances.

In 2021, the policy surrender value at around £8,400 was much less than the amount that had been paid in premiums and than the existing sum assured which was around £100,000. Mr L was in his 70's and, as I understand it, had and still has health concerns. So, given the relatively low surrender value, age and health of Mr L at the relevant time, and the size of the sum assured, I think it unlikely he would have decided to surrender the policy had he been given further information. And I think this is supported by Mr A's comments that Mr L would likely have carried on with the policy and surrendering wouldn't have been an option given how much he'd paid towards it and when the cash in value is comparatively low.

In addition, as far as we were last made aware, the policy has been kept in place and without any supplementary policies having previously been taken out for an additional premium to bring the total sum assured back up. That's despite the reviews having 'failed' since 2009 and Mr L being made aware the premiums were no longer supporting the sum assured, that the policy costs would continue to rise with age and that his level of cover would therefore otherwise decrease and could do so again in future. And despite the sum assured actually having gone on to decrease in 2009, 2019 and then more significantly so in 2024, for example.

This means I'm not persuaded that Mr L would have taken a different course of action if he had been provided with the information that I previously set out by Phoenix Life.

I recognise Mr A is also unhappy with the customer service received from Phoenix Life following the 2024 review. It isn't in dispute that he had to, for example, chase Phoenix Life several times for information and didn't always receive promised call backs, during a review process which I understand was already stressful for Mr L. Phoenix Life has accepted that it could have provided better customer service here though and it has apologised for this. And I think the £150 in compensation that Phoenix Life offered for this is a fair and reasonable amount to make up for this in the circumstances. And when also bearing in mind I think it's likely most of the resulting frustration here was experienced by Mr A in his dealings with Phoenix Life as representative, rather than Mr L, in the circumstances.

And, while I understand this will be disappointing for Mr L and I'm sorry to hear of his health concerns, I'm not asking Phoenix Life to do anything more than pay him the £150 in compensation that has already offered, if it hasn't already done that. Mr L's unhappiness with, and any surprise on receipt of, the 2024 review letter isn't something I'd ask Phoenix Life to pay further compensation for in the circumstances given that, for the reasons given above, I think he'd likely be in the same position now if Phoenix Life had provided him with the information it should have and sooner.

My final decision

My decision is that Phoenix Life Limited should pay Mr L the £150 in compensation, if it hasn't already done so. I'm not asking it to do anything more than this.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 9 February 2026.

Holly Jackson
Ombudsman