

### **summary of complaint**

Mrs B has complained about Friends Life Limited's offer of settlement, after it identified that her life and critical illness policy could not be renewed for a full ten year term.

### **background to complaint**

Mrs B's policy started in April 2003 with a benefit limit of £35,000 with a monthly premium of approximately £45. The policy was sold through an independent financial adviser and both a ten year renewable option, as well as indexation of the cover, were selected.

In February 2013, Friends Life wrote to Mrs B about the scheduled renewal of the policy and the error it had identified. It was explained that the terms of the policy stated that Friends Life must allow one renewal before the contract expired but the contract must expire by the age of 70. As Mrs B would be 61 at first renewal it stated it would be unable to offer to renew the policy for another ten years.

In order to rectify this, Friends Life stated it would amend the policy so that it would renew for a period of nine years. It clarified that to maintain continual cover a monthly premium of approximately £178 would be payable from renewal and this would provide a benefit of approximately £48,000.

The policy subsequently lapsed while Mrs B was investigating taking out alternative cover. She then asked Friends Life in May 2013 to reinstate her policy at the same level and premium. She complained that due to the error by Friends Life she would be left without any critical illness cover. It was explained that Mrs B could not afford the suggested monthly premium, which was double the amount she was currently paying.

Friends Life did not uphold the complaint. It appreciated Mrs B's concerns regarding the increase in premiums. However it noted that this was not related to the error it had made. Friends Life clarified that it would be unable to offer continuation of the policy at the same level or cover and premium but could offer a reduced premium with a reduction to the benefit that would be paid.

Mrs B referred the complaint to this service. The adjudicator, who assessed the complaint, did not believe it should be upheld. She was satisfied that Friends Life was not the business that provided the advice to take out the policy. As such she did not consider that Friends Life was responsible for determining its overall suitability. The adjudicator also believed that the policy terms did allow Friends Life to recalculate Mrs B's renewal premium and this had been done on the basis of her current age and subscription rates. She was therefore of the view that Friends Life had acted appropriately in this regard.

This also took into consideration that Friends Life had also offered to renew Mrs B's policy for a period of five years, providing cover of approximately £48,000 with a monthly premium of £117. This offer was subject to the outstanding policy premiums being paid and the completion of a health declaration.

Mrs B remained dissatisfied and did not believe that it was purely her independent financial adviser that was at fault for her situation. The matter has therefore been passed to me to consider afresh.

## my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

I should firstly confirm that the policy was sold via an independent financial adviser (IFA) and as such I am not persuaded Friends Life can be held responsible for the fact she may now not be able to afford the renewal premium. This is because Friends Life did not provide advice regarding the suitability of the policy. If therefore Mrs B has concerns about how she was told the policy would operate when it was sold to her (including what could happen at renewal) and its suitability for her needs and circumstances, then she can refer those to the IFA. Friends Life is not responsible for the actions of that IFA.

However, Friends Life has readily accepted that at application stage it should have identified that it would not be able to provide a policy with ten year renewable term. This is because the policy terms are:

*“When your membership ends depends on the cover you have:*

*If your registration certificate shows that the type of cover you have is ‘Renewable Term’ (either five years or ten years), your membership will end on the earliest of the following:...*

*- the renewal date immediately before the member’s 70<sup>th</sup> birthday (or the eldest if more than one).*

As the policy is renewable over 10 year periods this meant that, due to Mrs B’s age when the policy started, she would not be able to renew the policy after the first 10 years.

Given the actual error I am satisfied that Friends Life have offered Mrs B reasonable redress options. At the very least Mrs B could have expected cover under the policy to expire at her 70<sup>th</sup> birthday and as such Friends Life has given her the option to extend the policy to this date. As I have discussed, the assessment of whether Mrs B should have originally taken out a policy on a non-renewable basis or different terms is a matter Mrs B may wish to discuss with her IFA as, if the IFA gave advice, it would be responsible for the suitability of that advice.

It does seem that this matter has not been resolved due to the dispute over the level of the renewal premium. It is very unfortunate that the premium has increased significantly. However, the fact that the premiums can significantly increase is a natural part of the policy operation; that risk was always present regardless of Friends Life’s error. That increase is not due to the error that Friends Life accepts it made, which was only that at renewal the policy could not run for a further full 10 years. Even had no error occurred and Friends Life been able to provide a policy for a further full ten years this would have still resulted in a substantial increase in the premium. I do not believe Friends Life’s error has had a material impact on the premiums Mrs B would be required to pay to keep her cover at the same level.

I have noted that the policy documents record that:

*“If your Subscription Option is ‘Renewable’, we may increase or decrease your subscriptions on each renewal date if we agree to renew your membership.*

*We recalculate the subscriptions you have to pay on and from each renewal date based on the member's age and our subscription rates at that time... your subscription rates will almost certainly increase on each renewal date because of the increase in age of the member."*

This means that, at renewal, the new premium is calculated based on the rates payable at that moment in time and based on the policyholder's age at the time.

Mrs B's requested redress involves the reinstatement of the policy at her current monthly payment with her original level of benefit. I appreciate why Mrs B requests that but Friends Life's error does not justify or warrant such an award as its mistake did not generate the extra premium she would now have to pay. That would have occurred anyway. Any reduction to the premium would involve a reduction to the benefit (as detailed in Friends Life's final response letter dated 21 May 2013) in line with the terms and conditions of the policy.

#### **my final decision**

I appreciate Mrs B now finds herself in a difficult position because she has not been able to find suitable cover elsewhere and she feels the new premium too expensive. However Friends Life has offered reasonable options such as, subject to declaration of health, cover for 9 years at a higher premium, a lower premium for cover of 5 years or the same premium as she was previously paying but for a reduced level of cover. I leave it to Mrs B to contact Friends Life if she wishes to explore any of those options.

Bearing that in mind I do not uphold the complaint or make any award.

David Bird  
**ombudsman**