

complaint

Mr Z doesn't agree with the offer of redress from Abbey Life Assurance Company Limited for advice he received in 1990 to take out a 'reviewable' whole life policy.

He's represented by a claims management company (CMC) which said that Mr Z required life cover but not from a 'reviewable' policy. As such, Abbey Life should pay him a refund of premiums less the cost of life cover provided by this policy, and not less the cost of a 21-year level term assurance policy.

background

The adjudicator initially decided that Abbey Life's offer was appropriate as it was reasonable to conclude that Mr Z needed life cover but only to retirement.

The CMC disagreed with the adjudicator's view. The guidance issued by our service for this type of complaint required the actual cost of life cover to be deducted from a refund of premiums. The offer from Abbey Life didn't conform to established practice.

Having reviewed the complaint again, the adjudicator agreed that redress should take account of the actual cost of the life cover. Also, she didn't believe that a policy offering life cover over a fixed term matched Mr Z's requirements at the time.

Abbey Life disagreed with her view. But it couldn't explain why it chose a 21-year term assurance policy for a cost comparison with the whole life policy he took out.

Therefore, Mr Z's complaint has been referred to me for a review.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

There's no dispute between Mr Z and Abbey Life over the advice he received in 1990. But, I must consider why Mr Z needed to take out life cover at that time to assess whether redress he's been offered is appropriate.

Abbey Life said there's insufficient information to support the sale of a whole life policy. But, in my view, there's little evidence to justify the sale of a 21-year term assurance policy either.

Mr Z was member of his company pension scheme which paid a lump sum of one year's salary if he died in service. He had other policies which gave him life cover over different terms amounting to approximately £40,000. This was insufficient for his needs.

I think the advice Mr Z received in 1990 took most account of the benefits under his pension scheme which included a widow's pension payable on death before or after retirement.

But the scheme didn't pay a widow's pension based on pension he'd built up before April 1988. This may explain why the adviser noted that Mr Z had an income shortfall for seven years in 1990. Also, his scheme retirement age at that time was 60, so it didn't follow that he required a term assurance policy over 21 years. It seems likely that he continued the policy to June 2010 because he needed life cover before *and* after retirement.

Abbey Life has confirmed that the policy was 'reviewed' in 2000 and 2005, which reduced the life cover from £24,700 to £15,300 before he surrendered the policy in June 2010.

In my view, there's sufficient evidence that Mr Z wanted cover for life but not from a policy that carried a risk of life cover reducing over time. He was in his mid-40s in 1990 and the policy may go through several reviews before it became a claim. Therefore, redress should be based on the premiums Mr Z paid to the policy, less the cost of life cover it provided.

my final decision

My final decision is that I uphold Mr Z's complaint.

Given Mr Z's complaint about the sale of the policy was upheld, Abbey Life Assurance Company Limited should pay him redress of 'D' + 'E', where:

- A = the sum of each monthly premium (less the cost of life cover) Mr Z has paid from time-to-time from the start date of the policy to the date it was surrendered;
- B = Interest at a rate of 15% per annum simple on each premium paid from time-to-time up-to-and-including March 1993 and at 8% per annum simple on all premiums paid in or after April 1993;
- C = the cash value of the policy at the date of surrender;
- $D = A + B - C$ = the loss at the date of surrender;
- E = interest on 'D' at the rate of 8% per annum simple from the date of surrender to the date of settlement.

If Abbey Life considers that income tax should be deducted from the interest calculated in 'B' and 'E', it must send a tax deduction certificate with payment. Mr Z may reclaim any tax overpaid from HM Revenue and Customs, if his tax status allows him to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Z to accept or reject my decision before 11 April 2016.

Kim Davenport
ombudsman