DRN-4636812

The complaint

Mr and Mrs W's complaint is about the maturity of a mortgage endowment policy they held with Phoenix Life Limited. They are unhappy with the maturity value they received in January 2023, as it was around £3,000 lower than what they were told in November 2022 about the expected maturity. They aren't satisfied with the explanation given by Phoenix Life Limited for this reduction so close to maturity.

What happened

In January 1998, Mr and Mrs W took out a with-profits mortgage endowment and paid the premiums for the duration of the 25-year policy term.

On 1 November 2022, shortly before for the maturity date, Phoenix sent a maturity requirements letter to Mr and Mrs W with an estimated maturity value of £47,051.63.

The policy matured on 1 January 2023, and a policy maturity payment letter was issued to Mr and Mrs W confirming the value to be paid as £43,949.33.

Mr and Mrs W were concerned when they saw the drop in value, so contacted Phoenix to inquire why this had happened so close to maturity. As they didn't get satisfactory responses, they raised a complaint.

Phoenix responded to the complaint.

It said the November 2022 letter did explain the actual maturity value would be calculated at the maturity date and may be higher or lower than the amount quoted. It provided more information in respect of the bonus declarations, including the fact final bonuses were reduced at the time their policy matured due to challenging economic conditions.

It did concede that the overall service Mr and Mrs W received was not of the standard it strives to offer. This was in reference to the way it had handled the inquiries about the maturity value and not providing satisfactory and accurate responses. It made an offer of compensation of £160 by way of an apology for the trouble and upset that had been caused.

Mr and Mrs W didn't accept the offer as it didn't come close to meeting the losses they claim. So, they referred their complaint to this service for an independent review.

One of our investigator's looked into the complaint. He was satisfied Phoenix had provided a sufficient explanation for the maturity value Mr and Mrs W received. In summary, he said:

- Phoenix didn't give any guarantee on the sum that would be paid at maturity and warning was given it could be lower than the sums quoted before maturity.
- The maturity value and the application of bonus rates are influenced by variable factors like prevailing bond yields, asset values and equity market returns.
- Phoenix is required to operate its with-profits fund according to its "Principles and Practices of Financial Management" procedures.
- The annual policy statements provided show figures of estimated valuations

consistent with what Phoenix did pay under the plan. It does appear that the value used to pay maturity benefits was fair and in keeping with the information Phoenix had previously provided. So, whilst the previous values advised were higher than the final maturity value, this doesn't mean that there has been an error by Phoenix.
- Phoenix explained the final bonus rate is reviewed twice per year to pay customers a fair share of the 'profits' of the with-profits fund. The reductions in final bonus rates were due to challenging economic conditions and negative investment returns over 2022.
- The policy provided guaranteed benefits such as the sum assured and any annual bonuses that were added to date, but Phoenix warned that there could be reductions in final bonus rates, and that proved to be the case. No guarantees were given about the final maturity value.
- He noted Phoenix had accepted that it caused Mr and Mrs W some trouble and upset - and found the £160 already on offer to be fair compensation in the circumstances.

Mr and Mrs W didn't accept the investigator's findings and requested an ombudsman reach a decision on the complaint. They provided further submissions for consideration. In summary they said:

- The crux of the complaint rests on the terminal bonus. Phoenix has now provided some information on how terminal bonuses are calculated, but prior to this they had no knowledge of the process. They understand the rate fell between July 2022 and January 2023, hence the difference in value between the estimated forecast made on 1st November and the actual payout made in January. They question if the payment was made on 31 December 2022, whether the higher rate was still in force on that date, so should have been used for calculating the value paid.
- If the way bonuses were calculated was made clear sooner, they may have chosen to cash the policy in earlier, or at least request a surrender valuation. They say this speaks to their point about lack of transparency and openness by Phoenix.
- Since taking out the policy, they have seen its fortunes vary widely – including annual bonuses being suspended in 2001 and not reinstated until 2013. After receiving a shortfall notice they made changes to their mortgage but stayed loyal and kept the policy. They understood that when bonuses resumed, any surpluses would be used towards enhancing terminal bonuses – to reward policyholders to stay in for the long haul.
- They question the point of sending a forecast so close to maturity that Phoenix isn't prepared to honour. They request that Phoenix make good on its estimate of November 2022 and request that the bonus rate of 82% should be applied as it was still in force when they paid out on 31st December 2022.

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.

Firstly, I acknowledge Mr and Mrs W's disappointment with the maturity value they received falling by just over £3,000 between receiving the projected maturity value in November 2022 and what was paid out only two months later. They claim this as a loss and have requested it is paid to them. But in order to uphold the complaint on this basis, I'd need to be satisfied that there had been failings by Phoenix that led to Mr and Mrs W receiving an incorrect maturity payment.

Mr and Mrs W's policy was a with-profits endowment and the maturity value is made up of the basic sum assured, the annual bonuses that have been added each year and any terminal bonus that Phoenix applies. But terminal bonuses cannot be guaranteed and are paid at whichever rates are in force at maturity.

When Phoenix provided an estimated maturity value on 1 November 2022 it said:
"The estimated amount payable on that date will be £47,051.63 (gross). The actual amount payable will be calculated as at the maturity date and may be higher or lower than the figure quoted."

I'm satisfied that it didn't provide a guarantee that this is what would be paid, so it doesn't need to honour this amount.

Phoenix explained that market conditions had a negative effect on the fund around the time of maturity of Mr and Mrs W's policy. This type of policy does feature smoothing to try and even out the effects of market fluctuations during periods of poorer investment returns. But it can't insulate a policy completely from all such effects, especially towards the end of the term.

The factor that affected Mr and Mrs W's policy was the decision about the terminal bonus. Phoenix has explained the following about its terminal bonus rates:

- It usually reviews bonus rates twice per year, on 1st January and 1st July.
- The value quoted in November was based on the rates declared in July 2022, but as the policy matured in January 2023 a different rate was used.
- Almost all final bonus rates, and hence policy payouts, were reduced at the January 2023 final bonus declaration.
- The reductions in final bonus rates were due to challenging economic conditions and negative investment returns over 2022. The investment returns on nearly all asset types were negative over the relevant period, and this required it to reduce bonus rates.
- The period in question for the January 2023 bonus declaration is the six months from end February 2022 to end August 2022.
- The bonus rate declared on 1st July 2022, was 82% of the sum assured and accrued annual bonus at that time – but this fell to 70% from 1st January 2023.

To be clear, it is a commercial judgement on the part of Phoenix whether the fund can afford to pay terminal bonuses, and if so, at what rate. It was the implementation date of that change that mattered and Phoenix couldn't have provided an estimated maturity value based on the new rate until it was implemented. While, Mr and Mrs W say Phoenix haven't been transparent, I've not seen evidence that information that should have been given to them was withheld. In hindsight, it would have been beneficial for Mr and Mrs W to surrender their policy early when they received the November maturity quote, or even at an earlier date. But at this point no decision had been made about future terminal bonus rates, so I don't find that Phoenix is at fault here.

I note Mr and Mrs W have queried the date applicable for when the terminal bonus should be calculated from. They have questioned whether the January 2023 bonus rate change is applicable to their policy as Phoenix processed the maturity payment on 31 December 2022. Phoenix has clarified the settlement letter was automatically generated from its system prior to the maturity date. However, the actual value that was paid was the value at the maturity date 1 January 2023. As the maturity date has always been on this date, this supports the explanation given. It follows that I don't find Phoenix has paid a maturity value based on incorrect bonus rates.

To summarise, in the particular circumstances of Mr and Mrs W's policy, it is unfortunate that it matured when it did, as the underlying value of the fund had been adversely affected by a downturn in the markets, leading to a revision in the terminal bonus rate, in order to protect the fund and the policies invested in it. But this in itself isn't grounds to uphold a complaint or reason to require Phoenix to pay the losses they claim.

I do however note that Phoenix has made an offer of compensation relating to the way it handled Mr and Mrs W's queries following the maturity of their policy. I can see that they did need to keep going back to Phoenix as it failed to adequately answer the queries they raised. This caused upset at a time when they were disappointed with the drop in value of the policy. Phoenix has offered to pay them £160 to compensate for the distress and inconvenience Mr and Mrs W suffered due to the handling of the queries. Having considered the offer, I find it is fair and reasonable in the circumstances.

My final decision

Phoenix Life Limited has already made an offer to pay £160 to settle the complaint and I think this offer is fair in all the circumstances.

So, my decision is that Phoenix Life Limited should pay Mr and Mrs W £160.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Mrs W to accept or reject my decision before 4 April 2024.

Daniel Little
Ombudsman