

The complaint

Mr C complains that ReAssure Limited (ReAssure) won't allow him to alter the terms of his flexible mortgage plan by either decreasing the amount of insurance cover so that he increases the savings part of his plan or by simply increasing his premiums. He says this isn't fair as ReAssure did make a change to his plan previously without his consultation. He would like reinstatement of his original sum assured and the facility to increase his premiums to the ISA element of the plan.

What happened

In 2000 Mr C took out a 25 year term flexible mortgage plan through ReAssure. The plan comprised two elements. There was a savings element – invested into an ISA – which was designed to repay a mortgage when it finished. This part of the plan was administered by another provider and any alterations to contributions to the ISA needed to be made to that provider. The other element – which was administered by ReAssure – was a reviewable assurance plan covering life, critical and terminal illness cover. I understand the premiums and cover were reviewable, and the sum assured – which was set at £19,957 at the outset, could be decreased by ReAssure if the premiums no longer justified the existing level of cover at the review points. Of the monthly premium of £40.86, £12.23 was used towards the life and critical illness cover and £23.86 to the ISA investment. I appreciate the policy was originally taken out with another provider and ReAssure subsequently took over the administration of the plan. But throughout my decision I'll only refer to ReAssure for consistency.

In June 2001, an alteration was made to the policy when the sum assured of the cover was set at £100,000. I understand this policy was a combination of the original policy and a new policy which were added together to reach the new levels.

In 2020 ReAssure sent Mr C a letter which noted that the cost of the life and critical illness cover was now greater than what Mr C was paying towards that aspect of the plan – so money was being taken from the ISA to fund that level of cover. In order to prevent that situation continuing ReAssure reduced the cover from £80,043 to £41,600. Mr C complained because he thought he should have been given the opportunity to consider other alternatives to a sum assured reduction. His complaint was upheld, and he was paid compensation – although it was understood that he hadn't suffered a financial disadvantage because of his then current situation.

A statement from March 2023 – which noted that the ISA wasn't on track to pay off the mortgage – showed the plan's value was £9,123.83 with life and critical illness cover of £41,600.

Following receipt of the statement Mr C called ReAssure and requested the removal of the life assurance element and wanted the premium for that risk put towards his investment vehicle or *"towards the policy."* He was told this wasn't possible because it *"was a closed book of business"* and that ReAssure couldn't *"change the terms and conditions that were set out"*. Mr C wasn't happy with this and asked if he could reduce the cover and was told ReAssure would look into that possibility for him.

Mr C then received a letter from ReAssure which said that if he wished to cancel the life cover element of the plan, he would also need to cancel the investment part as well. That was because the two parts of the plan were linked and needed to run together as part of the terms and conditions. It said if it did this for Mr C he would then have to reinvest his existing ISA funds into a new standalone plan directly with the ISA provider.

Following another request from Mr C ReAssure confirmed that the policy couldn't accept lump sum or premium increases. It said the only way to reduce the life cover was to take a partial surrender which would automatically decrease the sum assured in line with the surrendered amount.

But Mr C complained about that because he thought ReAssure hadn't acted consistently with information it had previously provided when it had independently reduced the amount of life cover available to him in 2020 following a review.

ReAssure then explained to Mr C that its previous information wasn't entirely correct, and that he could increase the monthly premiums towards his ISA – but would need to contact the provider that administered this part of the plan. It also confirmed that the only way to reduce the life cover was through a partial surrender as previous advised, but also following a policy review – which was the reason it had reduced the cover in 2020. It accepted it had caused Mr C inconvenience and paid him £500 compensation.

But Mr C wasn't happy with the outcome and brought his complaint to us where one of our investigators looked into the matter. He made the following points in support of the view that ReAssure's offer of compensation was fair and reasonable.

- ReAssure hadn't disputed that it gave some incorrect information about being able to increase premiums towards the ISA investment. It paid £500 as compensation for this, as well as confirming the correct information and apologising – which he thought was fair and reasonable.
- He was satisfied the benefits under the policy couldn't be reduced unless Mr C made a partial surrender or unless the policy was reviewed and found to be underfunded.
- The ISA contribution could be increased but an application needed to be made to the ISA provider.
- He was unable to look at Mr C's request to have the benefit value reinstated to the pre 2019 figure as this had been considered within his previous complaint.
- He set out the section of the key features document that confirmed that policy reviews would take place every five years.

Mr C didn't agree. He said he first asked ReAssure if he could increase his premiums in 2020 and it was only recently that it accepted it had provided incorrect information and that he could in fact increase them. Therefore he thought he'd suffered a financial loss from not being able to increase his ISA contributions.

My provisional decision

I issued a provisional decision on 27 June 2024, here's what I said:

"In 2021 Mr C brought a complaint to us whereby he said he'd not been given other alternatives to amend his policy or his premiums when ReAssure reduced his life and critical

illness cover following a review. The outcome of that complaint was that Mr C was awarded – and accepted - compensation for ReAssure’s errors in not offering alternatives.

He’s now brought a similar complaint but about events relating to a complaint he made in 2023 when he wanted to reduce/terminate his life cover and increase his investment into his ISA but was told that wasn’t possible. After some communication ReAssure confirmed that he could increase his ISA investment directly with the provider responsible for administering it – but could only alter the premium or amount of cover within the insurance part of his plan if he made a partial surrender.

So that’s what I’m considering here. The events after March 2023 and whether Mr C was treated fairly in terms of the options available to him.

I’d also like to deal with another aspect of Mr C’s complaint here which was that he said he consistently told ReAssure after 2020 that he’d like to increase monthly contributions to his ISA by £100 – but was prevented from doing so, and therefore has lost out on investment growth over that period. I’ve carefully considered this point as I thought it might need to be looked at through the lens of any compensation or redress due. I haven’t been able to obtain any telephone recordings for 2020 to confirm that Mr C made that initial suggestion. But I’ve carefully considered all the available evidence on both complaints to see if there’s any reference in Mr C’s communication to this request.

But I haven’t seen anything which supports that claim and where I have seen communication between Mr C and ReAssure about the same matter I haven’t seen anything to show that he mentioned the £100 increase. Indeed when Mr C called in 2023 he asked to reduce his life cover amount so that the premium allocated to that could be redirected to the ISA. There’s nothing to support the idea of an additional £100 being invested into the ISA. And if Mr C says he consistently put forward that idea I would have expected some confirmation of it when he had later exchanges with ReAssure.

So, based on the evidence I’ve been presented with, I’m not persuaded that consideration of the additional £100 monthly investment into the ISA – with the investment growth that may have brought, is something I should incorporate into any redress recommendation. It’s also worth noting that if Mr C had made additional £100 monthly contributions from 2020 his ISA would have been worth more, but this money would have come from his other accounts, and he’s had the benefit of the use of that money elsewhere. So although it could be considered to be a “loss” to the ISA, it’s not a “loss” to Mr C overall and it wouldn’t be reasonable to give him the benefit of those contributions as “free money.”

What was Mr C told in March/April 2023?

Mr C’s call to ReAssure in March 2023 seems to follow a periodic statement he received about his ISA investment not being on track to meet its “target maturity amount”. I think it’s understandable that Mr C would, following this information, want to discuss what he could do with his flexible mortgage policy overall to change his ISA position. In the call Mr C asked if he could terminate the life and critical illness cover and redirect that part of the premium to his ISA. He was told this wasn’t possible because it was a “closed book of business” and ReAssure had to comply with the original terms and conditions that were set out.

Mr C then asked if he could reduce the amount of cover – he suggested a reduction to £5,000 – based on the fact that ReAssure had been able to independently reduce his cover following a policy review some years earlier. ReAssure said it would look into whether that was possible.

But ReAssure subsequently confirmed this wasn't possible and it was only if Mr C wanted to partially surrender the plan that the life and critical illness sum assured would be reduced. There's no evidence to suggest this was something Mr C wanted to do.

So I've looked carefully at the original terms and conditions within the policy schedule and the key features document Mr C would have been provided with to see if they support ReAssure's actions here.

ReAssure has provided a copy of the original policy document. Under "important information about your plan" it sets out how the monthly payments are used and allocated. It was noted that the monthly payment of £40.24 will "be allocated to the respective plans, and will pay for life cover, critical illness cover and certain charges. The balance of the payment will be invested in the ISA."

I think this clarifies how the premiums would be used with the cost of the life and critical illness cover being taken first with any residue then invested into the ISA. And because it's a flexible and reviewable plan this supports the idea that as the cover becomes more expensive with age, less would then be available for investment. This is set out in more detail within the payments section of the policy document which says:

"payments made into your flexible mortgage plan will be reviewed after the first 10 years and regularly thereafter to establish whether future payments together with the value of units already allocated to your plan, are likely to be sufficient to produce the target maturity benefit shown in the section entitled 'summary of benefits'. Should this review establish that the current level of payment to the plan is insufficient to attain the target maturity benefit, you will be notified and have the option to increase monthly payments into the account or accounts maintained by (ReAssure). If on review it is established that payments into the plan investments need to be increased, but result in the new payments being at a level above ISA limits, then the payment exceeding the ISA limit may, if required, be placed in non ISA investments."

ReAssure has repeatedly told us that this section is the one which supports the idea of regular reviews where consideration of whether the monthly premiums are sufficient to maintain the life and critical illness cover is undertaken. But I don't agree that it does. There's simply no reference to reviews of the assurance part of the policy and nothing to set out what the outcome of such reviews would be or what alternative a policyholder might have in that situation. This section only deals with reviews of "the target maturity benefit" which is, quite reasonably, an exercise to determine whether the investment is on target to meet the outstanding mortgage or "target amount". But I haven't seen any evidence to support the claim that this section of the policy schedule sets out anything about a policy (and premium/cover) review relating to the insurance part of the contract.

I've also looked at the KFD documents to see if this supports ReAssure's actions. This says that "as an integral part of our service to you, we will assess your plan at regular intervals to check whether it is on target to repay your loan. To help you check on the progress of your plan, we will automatically send you details of the review. We will review the premiums for Mortgage Payment Insurance after 5 years and then at 5 yearly intervals."

But the KFD noted that Mr C was able to choose mortgage payment insurance and unemployment cover – which was defined as "a monthly benefit, to help you make your mortgage payments while you are unable to work. due to illness, accident or unemployment" – as a separate option to the life and critical illness cover – so I'm not persuaded it's clear that five yearly reviews related to the life and critical illness cover aspect of the plan.

I've asked ReAssure to provide further evidence to support the claim that policy reviews and alterations to the policy were covered in the original documents, but it hasn't been able to do so. However if it is able to provide clear proof following this provisional decision, I'll consider the matter further.

ReAssure has said that it's only a partial surrender of the plan that would invoke a review and the opportunity to reduce the level of cover. And this is supported by the part of the schedule that says, "if either of you withdraw part of the value of your plan investments during the term of the life policy, an immediate review will take place to establish whether the benefits provided by the life policy can be maintained. In some cases, in order to retain the same benefits an increase in premium may be required. If either of you wish to exercise this option, then you will need to provide evidence of health in order that the life cover can be provided at the required level."

Of course this would make sense as there wouldn't be sufficient funds to maintain the existing cover, but the suggestion is that this is the process that would need to be followed if a partial surrender were requested. It doesn't suggest that this is the only way that a review of the existing cover can be carried out and, in any case, Mr C didn't want to partially surrender his plan – so I don't think it's reasonable to put this forward as the only option for maintaining cover/premiums.

So having carefully considered all the evidence I've been presented with I'm not persuaded that the options (or lack of them) that were put to Mr C in 2023 were supported by what it actually says in the original policy schedule or the KFD.

What should have happened

So as I don't think the documentation that ReAssure has relied on supports the actions it took in 2023 I have to consider what I think would have happened or what Mr C ought to have been able to do. When asked what he would like to do Mr C was clear that he would like the life and critical illness cover to be terminated and, when he was advised this wasn't possible, he suggested a reduction down to £5,000 cover.

I think Mr C would have, more likely than not, chosen to accept a reduction in the life cover sum assured (to £5,000) and I say that for the following reasons. I can understand why a termination of the cover might have been difficult and I can accept this may have signalled the cancellation of the whole plan – even though this isn't specifically mentioned in the terms and conditions. ReAssure set this out in its letter of 23 May 2023 when it said, "you may wish to consider the below options if you would like more of your full premiums to be invested into your savings: Remove your life cover, full premium will be invested into savings."

But Mr C hasn't now said that's what he wants to do which would suggest that he wanted to keep some cover.

I've also taken into account Mr C's actions when he previously questioned ReAssure's right to independently review the life cover sum assured (as a reduction) without offering him alternatives – such as increasing his premiums to maintain the level of cover.

Indeed part of Mr C's complaint to us read, "I have been asking ReAssure to decrease the life assurance on my plan so I can put more towards the ISA savings pot...they did this back in 2019/2020 without any consultation or offering any other alternative." I think this further supports the idea that Mr C appreciated the benefit of having some life cover remaining, and not simply terminating the cover. There were other negative aspects of terminating the life cover element completely. There would have been no surrender value available to Mr C on

termination and also he would have lost the option of the “further mortgage option” which may have been of some future benefit to him before the term of the policy ended.

So I think that on reflection, Mr C might have considered the loss of all his cover to not be in his best interests – if he’d been given the opportunity to consider his options. And I think that if ReAssure had agreed to his proposal to reduce the cover to £5,000 and direct the premiums from that part of his plan to the ISA he would have more likely than not accepted that offer and agreed to go ahead on that basis.

The difficulty here is how to compensate Mr C for any loss that he may have suffered, but also in respect of the situation he now finds himself in some time after he first brought his complaint. For example I note that the letter Mr C received from ReAssure in 2001 suggested that his new top up plan would mature on 6 June 2024 – so it’s possible that some or all of his cover has now lapsed and therefore this problem no longer exists for him.

And ReAssure during the course of its response to his complaint eventually (correctly) confirmed that Mr C is free to contact the provider of his investment ISA and make regular increases to the premium or lump sum additions within the normal ISA limits. So Mr C has no restrictions on the investment side, and I can only assume that building up sufficient funds to repay his mortgage is Mr C’s priority now – so he’s free to do that.

So, in order to put Mr C into the position he would now be in, had ReAssure given him the options I think he ought to have been provided with to redirect funds away from his life and critical illness cover and into his ISA, I think ReAssure should:

- Calculate how much of his insurance premium would have been released if the cover had been reduced to £5,000 within a week of his phone call of 31 March 2023.*
- Transfer the sum equivalent to the monthly payment for the life assurance (above £5,000) to his investment ISA – assuming it doesn’t exceed the overall allowances – from a week after the telephone call of 31 March 2023 until either the date of any final decision along these lines, or the date the policy ceased to exist if that’s already happened. ReAssure will need to consult with the ISA provider to carry out that action.*
- Ensure that each additional payment is measured from the date it would have been invested, so that Mr C’s ISA receives the actual investment growth that would have been obtained if the payments were made each month.*
- Confirm it has paid the £500 compensation to Mr C for the distress and inconvenience caused over the whole matter. I think this amount is fair and reasonable and within the range of what I would have recommended.”*

Responses to the provisional decision

Mr C said he accepted the provisional decision but as he had two almost identical policies he expected the redress to apply to both of them.

So I asked ReAssure, who had accepted my provisional findings, to confirm details of the additional policy.

It confirmed that Mr C did indeed have another flexible mortgage plan but thought this had been the subject of previous complaints – so shouldn’t be included within this one.

I said that I thought the previous complaints about the second policy were either about a different matter and resolved with a compensatory payment or related to events preceding the one complained about here. So I was minded to apply the same findings to the additional policy to events after March 2023. ReAssure restated its position that this complaint wasn’t

about reducing the sum assured on the second policy but in any case that policy had now been terminated and a final payment had now been made in relation to it. So it didn't think there was any benefit in including the policy in my 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.

And having considered the further submissions from both parties I've reached the same conclusion as my provisional findings, but with the inclusion of redress for the second policy as I set out in my recent addendum email to ReAssure about this matter.

In my provisional decision I set out the details of previous complaints Mr C had made about his policies when he thought he was given other alternatives to amend his policies. This complaint however is specific to the events that happened after March 2023 when Mr C contacted ReAssure to discuss the situation with his plans. Although reference was only made to one policy – when Mr C was asked to quote his policy number before discussions could begin – I don't think it's unreasonable to conclude that he was making representations about both his policies which ReAssure has confirmed are broadly the same. Crucially, I'm satisfied that had Mr C correctly understood his options regarding one of the flexible mortgage plans, I'm satisfied he would have taken the same action in regard to both policies.

In my provisional decision I did also address the issue of Mr C's suggestion that he had consistently asked ReAssure to increase monthly contributions to his ISA from 2020. I said I hadn't seen any evidence to support that claim and I didn't think he had referred to it in the later conversations I'd heard between both parties – so I didn't think it was fair to give him the benefit of those contributions as "free money." Mr C hasn't contested that point any further so I'm not going to consider it in terms of additional redress.

The events in March and April 2023

When Mr C called ReAssure in March 2023 he wanted to discuss his policy in relation to an annual ISA update statement which suggested his investment wasn't on track to meet its target maturity amount. It would seem Mr C wanted to terminate the life and critical illness cover element of his plan and redirect those premiums to the ISA. When he was informed that wasn't possible he suggested reducing the cover to a minimal level instead. ReAssure's position was that the only way Mr C could reduce the cover would be to make a partial surrender of the policy – which wasn't an option he wanted to take up.

So I've looked at ReAssure's response with regards to any documentation that was available which may support its position around the available option. I'm satisfied that the policy document supports the idea that some of Mr C's monthly premiums went to cover the life and critical illness aspect of the plan with the balance being redirected to the ISA – which was managed by another provider. I'm also satisfied that the reviewable element of the plan meant that as Mr C got older the life and critical cover premium would naturally increase meaning less would be invested into the ISA.

So I looked at the relevant sections of its documentation. In particular the section within the policy section that ReAssure said supported its stance. It said:

"payments made into your flexible mortgage plan will be reviewed after the first 10 years and regularly thereafter to establish whether future payments together with the value of units already allocated to your plan, are likely to be sufficient to produce the target maturity benefit shown in the section entitled 'summary of benefits'. Should this review establish that the

current level of payment to the plan is insufficient to attain the target maturity benefit, you will be notified and have the option to increase monthly payments into the account or accounts maintained by (ReAssure). If on review it is established that payments into the plan investments need to be increased, but result in the new payments being at a level above ISA limits, then the payment exceeding the ISA limit may, if required, be placed in non ISA investments.”

But I don't think this does support ReAssure's position as it makes no reference to the life and critical illness cover premiums or sum assured but instead sets out the outcome of reviews where payments suggest the target maturity benefit of the ISA may not be reached. This only sets out an alternative of increasing premiums to the ISA in order to get things "back on track" but doesn't provide any description of how premiums relating to the life and critical illness cover can be reviewed or amended.

Further reference to reviewing the plan is set out in the key features document which noted the option to "*review the premiums for Mortgage Payment Insurance after 5 years and then at 5 yearly intervals.*" But the mortgage payment insurance in question was an option to cover Mr C in the event of sickness and unemployment, so it didn't relate to reviews of the life and critical illness cover.

I've also gone on to look at the section of the policy schedule which confirmed ReAssure's assertion that the only option open to Mr C was to partially surrender his plan. And ReAssure is right that it said "*if either of you withdraw part of the value of your plan investments during the term of the life policy, an immediate review will take place to establish whether the benefits provided by the life policy can be maintained. In some cases, in order to retain the same benefits an increase in premium may be required.*" But this was specific to the action of partially withdrawing from the plan and that wasn't an option Mr C wanted to consider. I haven't seen anything to support the idea this statement was part of the options that might have been available to Mr C as a result of a review of the existing cover and premiums, so I'm not persuaded it confirms this was his only option when he contacted it March 2023.

In my view, and having carefully considered all the relevant documents, I'm not persuaded they do definitively set out the options that were available to Mr C. Indeed they appear to be silent on what alternatives Mr C had if he ended up in a situation where the life and critical illness premiums had increased to the point that he was restricted in the amount that was available for investment into his ISA. I don't think it's unreasonable for Mr C to want to discuss and consider his options to ensure the plan continued to work in a way that was in his best interest, and I'm not persuaded that ReAssure's documentation either set out the options he may have had or supported its position that his only alternative was to partially surrender the policy.

What should have happened?

As I don't think ReAssure has been clear about what Mr C could have done – or even supported the position it took through its documentation, I see no reason why it couldn't have taken up Mr C's request to reduce his insurance cover and increase his investment premiums. ReAssure did after all say that it would consider his request to reduce the cover to a nominal sum assured before declining that request.

When he contacted ReAssure in May 2023 Mr C first asked for his life and critical illness cover to be terminated. When he was told this wasn't possible he asked if it could be decreased to a nominal sum assured of £5,000 with the remainder of the premiums being redirected to his ISA. As I've said I've seen no evidence within its documentation to suggest ReAssure couldn't consider these options. So I've first thought about which option Mr C would have settled upon if offered in response by ReAssure. I note that Mr C's complaint to us said that he had "*been asking ReAssure to decrease the life assurance on my plan...they*

did this back in 2019/2020.” He also didn’t take up the option ReAssure set out in a letter from May 2023 which said he could, *“remove life cover, full premium will be invested into savings.”*

So Mr C’s actions and submissions would suggest he didn’t want to remove the assurance element completely and would have been happy to retain a nominal sum assured. But there were other advantages to retaining some element of cover and thereby leaving the policy active. The plan had a residual surrender value which would have been available to Mr C on termination and it also contained a “further mortgage option”, both of which might have been useful benefits to Mr C. Of course it’s possible he may not have required or used these benefits, but I’m satisfied he would have been happy to retain them in return for keeping the life and critical illness cover in force to some degree.

So when taken overall I think it’s more likely than not, if given the options, Mr C would have accepted an alternative whereby the sum assured was reduced to £5,000 and the premiums that were then released from that reduction could have been redirected to his ISA investment. ReAssure has also confirmed that Mr C was, and still is free to make additional ISA contributions to the provider that manages that investment for him separately. And I’m satisfied he would have done this for both his policies

Therefore I think ReAssure needs to compensate Mr C for this loss of investment into his ISA from the premiums that could have been directed to it in 2023. As I said previously my provisional decision explained that this should be done, as I’ll set out below, for the policy that I thought was covered by this complaint. But I’m now satisfied, from what ReAssure has said, that Mr C also holds another policy along the same lines which would have benefitted from the same action at the time he made his first request. I accept that policy, like this one, has been the subject of earlier complaints, but I think this complaint is about a new matter which hasn’t been considered and therefore the second policy is eligible to be compensated in the same way. ReAssure has said that as the second policy has now terminated there’s little benefit in including it in this decision, but I don’t think that’s relevant here as I’m asking it to compensate Mr C for a loss that occurred while the plan was still in force.

And I’m satisfied that, had Mr C amended his policy the way he wanted, his ISA would have grown by more than it did and so the value he surrendered it for would have been greater and so there is a loss to compensate.

Putting things right

To put Mr C into the position he would now be in, had ReAssure given him the options I think he ought to have been provided with to redirect funds away from the life and critical illness cover part of his flexible mortgage plan and into his ISA, ReAssure should:

- Calculate how much of Mr C’s life and critical illness cover monthly premium would have been released if the cover had been reduced to £5,000 for both plans within a week of his phone call of 31 March 2023.
- Transfer the equivalent of the sum of those monthly payments to his investment ISA – assuming it doesn’t exceed the overall allowance – from a week after the telephone call of 31 March 2023 until either the date of this final decision or the date the policy ceased to exist if that’s already happened. ReAssure will need to consult with the ISA provider to carry out that action.

- For each payment calculate and apply the percentage growth on Mr C's ISA from the date the payment ought to have gone into the ISA until the date of settlement/date the policy was surrendered.
- If it hasn't already paid the £500 compensation to Mr C for the distress and inconvenience caused over the whole matter it should also make that payment. I think this offer/payment fair and reasonable and within the range of what I would have recommended for such an impact on Mr C's investment planning.

My final decision

For the reasons that I've given I uphold Mr C's complaint against ReAssure Limited. It should carry out a redress calculation as set out above and present that information in a clear and simple manner.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 13 December 2024.

Keith Lawrence
Ombudsman