

The complaint

Mr B complains about the drop in value of his whole of life “(WOL)” policy with Liverpool Victoria Financial Services Limited (“LVFS”) resulting from it changing its methodology for calculating the value of the policy without informing him.

What happened

Mr B took out his WOL policy in 1979 for a sum assured of £396 with a premium of £0.43 payable each month. There have been regular bonuses added to the policy since it started which, based on figures provided by LVFS, amounted to £499 as at March 2023.

Mr B complained to LVFS about a drop in the overall value of his policy as of February 2023. It provided a final response to the complaint explaining that as of 1 August 2022 it had changed the methodology for calculating the death benefits and cash-in values of its WOL policies so that the values are fairer – in that these more accurately reflected the premiums paid and the insurance cover received.

LVFS further explained that the purpose of WOL policies such as Mr B’s was to provide a payment on death with the only guaranteed amount being the sum assured and any regular bonuses already added to the policy and that there is no guarantee of payment of future regular bonuses or a final bonus.

Mr B referred the complaint to us and one of our investigators considered it but didn’t think it should be upheld. She explained that LVFS had made a commercial decision to change its methodology for calculating the final bonus for its WOL policies and this wasn’t something we would interfere with and that LVFS hadn’t treated Mr B unfairly as a result of the change in methodology.

Mr B didn’t agree with the investigator. He said that he understood that values could go up or down but the significant decrease in value of his policy was solely the result of LVFS’s decision and it must have known this would be the implication of it changing its methodology. He also said that LVFS must have known that had it advised its customers of what it was doing it would have faced an influx of customers wanting to close out their policies and it was a deceitful and tactical decision not to do so.

As Mr B didn’t agree with the investigator the matter has been referred to me for 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.

Having done so, I agree with the investigator that LVFS hasn’t done anything wrong and I am not going to uphold the complaint.

I note that in February 2023 Mr B was provided with valuations for his policy over the preceding five years. The valuations are made up of the sum assured, any regular bonuses

already added to the policy and an amount for a discretionary final bonus. The valuations show the same figure for the death value and surrender value of well above £3,000 - with the figure for February 2022 being £3,920.

In contrast the death value provided for February 2023 is shown as only £1,660 and the surrender value is £975. In the circumstances it isn't surprising that Mr B questioned the drop in value. However, whilst I appreciate this will have been very disappointing for Mr B, it results from LVFS changing its methodology for calculating the amounts payable for its WOL policies. This was a decision that it was entitled to take and not one that I can interfere with – it isn't part of my remit to overturn reasonable commercial decisions made by a firm.

There is nothing unreasonable in LVFS changing its methodology for calculating what would be payable under its WOL policies to move away from providing the same value on surrender as it does on death and focusing instead on providing life cover – the purpose such policies were taken out in the first place. LVFS has explained that the aggregate amount it expects to pay out to its policyholders hasn't changed, rather there is a fairer allocation amongst them.

Mr B rights under his WOL policy when it comes to the amount payable to him is an entitlement to receive the sum assured, amounting to only £396, and any regular premiums already added to his policy, amounting to £499 as at March 2023. In short he was only guaranteed around £895. The balance of the valuations he was provided with in February 2023 is made up of the discretionary final bonus and it is a reduction in this figure that has led to the reduction in the overall value of Mr B's policy.

In short, LVFS's decision to change its method of calculation for its WOL policies hasn't affected Mr B's rights under his policy - he is still entitled to payment of £895 and any further regular bonuses that are added to the policy in the future. The change of methodology has only affected the calculation of the final bonus, the entitlement to which has always been at the discretion of LVFS.

It might have been advisable for LVFS to warn policyholders of what it was doing to try and avoid the sort of complaint that Mr B has made. However, I am not satisfied that LVFS was required to provide such warning, given its change of methodology wasn't something that affected Mr B's rights under his WOL policy. I therefore don't think it did anything wrong in not informing Mr B that it had changed the method of calculation.

I think it is also worth pointing out that even if LVFS had told Mr B it had changed its method of calculation this wouldn't necessarily have told him whether this would lead to a much lower overall valuation figure than in previous years due to a lower discretionary final bonus figure anyway - as from what it has said some policyholders will have seen an increase in valuation of their policies. LVFS wouldn't have known the impact on his policy until it applied the new methodology and revalued his policy, at which point he wouldn't have been entitled to surrender based on the old valuation in any event.

My final decision

I don't uphold this complaint for the reasons I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 19 January 2024.

Philip Gibbons
Ombudsman