DRN-4467865

The complaint

Mr T complains, on behalf of the trustees of the T trust, about Zurich Assurance Limited. He's unhappy that he wasn't made fully aware of the implications of taking a partial surrender from a life insurance policy held by the trust.

What happened

Mr T contacted Zurich in 2019 to discuss taking a partial surrender from a reviewable whole of life (RWOL) policy the trust held. He had a discussion with their representative about the partial surrender and eventually asked them to surrender £32,000 from the policy's underlying fund. This resulted in the policy's sum assured reducing from £101,232 to £69,232.

Zurich wrote to Mrs T following the policy review in March 2020 and said that the policy's monthly premiums would have to increase from £38 to £195.31 in order to maintain the sum assured. If the premiums weren't increased, then the sum assured would reduce to £22,231.

Mr T contacted Zurich regarding a query he had in September 2020, and was told that the sum assured had reduced to around £22,000 following the policy review. He wasn't aware of this as he lived at a different address to Mrs T and Zurich hadn't sent him a copy of the correspondence.

He subsequently complained to Zurich and said, in summary, that if he'd been made aware that taking the partial surrender would have had such a drastic impact on the policy, then he wouldn't have taken it. He also noted that he'd previously made Zurich aware of his address, but they hadn't sent him any correspondence. He thought Zurich had been negligent in the advice they'd given him when he'd asked about taking the partial surrender. In order to put things right, he wanted them to maintain the sum assured of £69,232 for monthly premiums of £38.

Zurich looked into the concerns he raised but didn't agree that they'd been negligent in the advice they'd given him. They thought that the documentation they'd sent him relating to the partial surrender ought to have made him aware that the sum assured would be reduced. However, they did accept that they hadn't correctly updated his address and offered him £105 in compensation for the inconvenience they'd caused him.

Mr T didn't accept their findings and asked them to compromise and increase the policy's sum assured to £50,000 with no increase in monthly premiums. However, Zurich didn't accept his proposal, so Mr T asked for our help with the matter.

The complaint was considered by one of our investigators who didn't think it should be upheld. She noted that when Mr T had spoken to Zurich, their agent had warned him that the partial surrender may affect future reviews. And she didn't think it unreasonable that specific figures weren't provided as they would have been impossible to predict at the time. She'd also seen evidence of Zurich's letters from the time which warned of reductions to the sum assured and also invited customers to contact them to discuss other options.

However, she thought that Zurich should have updated Mr T's address when he'd asked them to. Because of this error, he'd missed the opportunity to reply to the 2020 review letter. But she was satisfied that Zurich's proposal to put that error right by offering to backdate the 2021 review to 2020 and pay £105 in compensation was fair.

Mr T didn't agree and remained of the opinion that Zurich should have done more to protect him and provided better advice about the implications of taking the partial surrender. The investigator wasn't persuaded to change her opinion, so the complaint has been passed to me to make a 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.

Mr T's issues stem from the conversation he had with Zurich when he was making enquiries about taking the partial surrender. He contends that Zurich should have given him better advice about its implications. With that in mind, I've considered what he was told at the time and the obligations Zurich had in regard to the provision of information.

I've firstly considered the relationship between Zurich and Mr T. I note what Mr T has said regarding this relationship – that as the previous financial advisor was no longer attached to the policy, Zurich then effectively became his advisor. However, I don't think this was the case. In order for Zurich to be Mr T's financial advisor, there needed to be some kind of agreement between both parties for them to perform this role. There was no such agreement, so the only relationship Zurich had with Mr T was that of policy administrator.

Therefore, their role was to administer the policy in line with its terms and conditions. But they also had a requirement to provide him with fair, clear and not misleading information about the policy. Taking that into consideration, I've reviewed the conversation he had with Zurich before he took the partial surrender.

During the conversation he asked about the maximum amount he could take out of the policy. He was told that the most he could withdraw was £34,043 but that would reduce the sum assured by the same amount. He then asked about the impact of the partial surrender on future reviews, specifically if the premiums would increase because he was taking out the majority of the amount available for surrender. Zurich's agent was unable to confirm the specific impact and said that premiums would remain the same until the next review.

Mr T pressed the agent for an answer and asked if it could be a massive change, but the agent was unable to give any confirmation. The agent reiterated that it could affect the premiums at future reviews, but Mr T would need to wait until the next review to find out the actual impact.

The conversation shows that Mr T was concerned about the potential impact and shows that he had some understanding that taking the majority of the amount available for surrender would have an impact on the policy. I've considered if there was anything more Zurich could have done at the time to provide Mr T with a reasonable approximation of what would happen at the next review.

I don't think Zurich's agent could have provided specific details of what would happen at the next review. I think he made this clear to Mr T and didn't give any guarantees that the policy wouldn't be impacted. It is evident that Mr T had concerns, given that he pointed to the fact that taking the majority of the policy's surrender value would surely result in an increase in premiums. I also note that the surrender form which Mr T completed and returned to Zurich stated that by taking a partial surrender the policy would lose its long-term investment potential.

I fully appreciate that Zurich could have provided Mr T with more information about the likelihood of major changes being needed at the next review. But I don't think they were required to, and I think they made him aware of the possibility of major changes. Given his concerns, the lack of clarity provided by Zurich's agent and the warning given in the partial surrender form, I don't think it's unreasonable to suggest if Mr T wasn't satisfied with Zurich's response, he could have sought independent advice about the implications of taking a partial surrender.

I've then gone on to consider if Zurich were within their rights to reduce the policy's sum assured at the 2020 review. The purpose of the review is to broadly ensure the long-term sustainability of the policy by checking if the premiums being paid are sufficient to meet the cost of providing life cover.

These life cover costs increase as the lives assured get older. At the outset, when charges are relatively low, the difference between the premiums being paid and the charges results in an investment pot being built up. As the lives assured get older, the cost of providing cover increases and can exceed the premiums being paid in, but this can be offset by selling the accrued funds, or the return from the investment pot.

Businesses will undertake reviews to ensure that the policy can continue to provide the chosen level of cover. They will look at a number of different factors such as the size of the investment pot, current mortality rates and investment performance. If they decide the policy isn't sustainable at its current premium, the consumer will usually be offered the option of reducing the sum assured or increasing the premium.

Because Mr T removed the majority of the investment pot that had built up over time, the policy wasn't projected to be able to sustain a sum assured of £69,232 based on the premiums that were being paid. Taking this into account, I don't think Zurich acted unfairly in making the changes to the policy that they did.

However, they should have written to Mr T with the outcome of their review. He'd previously asked them to update his address, but they didn't which meant he didn't receive a copy of the 2020 review. This clearly inconvenienced Mr T, but I've considered any other impacts caused by this error. The review letter explained that there were two options, either the premiums would have to be increased from £38 to £195.31, or the sum assured would reduce from £69,232 to £22,105. There was no response to the letter so the default option of reducing the sum assured applied.

Mr T would have lost out at the time as he wouldn't have been able to apply the option of paying higher premiums to maintain the sum assured. However, I've seen that Zurich have offered to pay him £105 in compensation and also to consider retrospectively applying the option of maintaining the sum assured of £69,000 if Mr T desired. However, he's rejected this option, so I don't think he's lost out because of the error.

So, having considered everything, I think the compensation Zurich have offered Mr T is fair and reasonable and don't think I can fairly ask them to do anything else to resolve this complaint.

My final decision

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask the trustees of the T Trust to accept or reject my decision before 19 March 2025.

Marc Purnell
Ombudsman