

The complaint

The trustees (Mr and Mrs S) of the S Trust (the 'Trust') complain about a failed review in 2021 of a reviewable whole of life policy ('RWOL') – Zurich's Adaptable Life Plan ('ALP') which is underwritten by Zurich Assurance Ltd ('Zurich'). This complaint has been brought by Mr S on behalf of the Trust, as such I will refer to Mr S throughout this decision.

What happened

In around November 1986 Mr S received advice from Allied Dunbar Assurance plc (Allied Dunbar). The ALP was recommended, I have been provided with a copy of the ALP terms and conditions. On page 2, point 4 it states:

"POLICY REVIEW

Subject to sub-provisions 6(3) and 6(4) below at every Review I the Policy will be reviewed in accordance with Appendix C and any consequent adjustments will apply until the next review."

Sub-provisions 6(3) and 6(4) reference policies which are paid up. At appendix C details of how a review will be carried out are set. At point 5 it states that if the review provides a negative number then the sum assured will be reduced. It goes on to state at 5(2):

"If the sum assured is reduced the Policyholder may elect forthwith, by Notice to increase the Sum Assured by any amount up to its level immediately before the review took place, paying an increased Contribution determined by the Actuary. . ."

The ALP commenced on 1 December 1986 on a single life basis, the sum assured was £100,000 which was index linked in line with the Average Earnings Index. An initial annual contribution of £1,000 per annum was set out. Zurich say that in March 1988 Mr S removed the index link to the policy and changed the payment frequency to monthly. In November 1991 Zurich say Mr S reduced the sum assured to £54,522 and the monthly premium to £46.80.

Mr S requested, and received, partial withdrawals from the policy in 1991, 1994, 1995, 1997, 2011 and 2019 which amounted to a total of £18,557.

On 1 December 2018 Mr S's policy value was £4,510.54, I understand the sum assured at this time was £42,022.

Upon requesting a partial surrender of the policy in 2019 Zurich provided Mr S with a partial surrender request form. The form began by providing some information about the consequences of taking a partial surrender, one of those consequences was set out as a reduction of the sum assured:

"If your plan is an Adaptable Life Plan, Lifeline plan or a Lifestyle Plus Plan, then a partial surrender will reduce your cover by a similar proportion. For example, if you take out 25% of your fund value, we'll reduce your cover by approximately 25%. Your

cover will reduce by an amount equal to the partial surrender immediately and then we'll reduce it by the balance at the next plan review. .”

Mr S signed this document on 22 February 2019 and completed the form required. £4,500 was withdrawn. Mr S's review of October 2021 failed; Zurich provided him with a letter which set out that his current monthly premiums could only support life cover of £22,321. They said that Mr S could choose to increase his monthly premiums to £111.23 if he wanted to maintain his previous level of sum assured but he would need to let them know by 1 December 2021 if that's what he wanted to do. Mr S has said he didn't respond to this letter, and so the sum assured was reduced.

Unhappy with the outcome of the review Mr S raised a complaint. He said that he thought he would have a pot of money, this was his life savings, and he didn't know that the sum assured could be reduced. He asked for an explanation about how the costs had been calculated.

Zurich provided their final response to Mr S on 22 December 2021, they didn't uphold his complaint. Mr S responded on a few occasions and on 7 April 2022 Zurich issued further clarification of their response. Within these letters Zurich said, in summary:

- Mr S's plan is a RWOL policy and reviews are part of how the policy works this is set out within the terms and conditions of the policy. The first review is carried out at the end of 10 years then every five years until the age of 70 when they become annual.
- They explained that during a review Zurich check that the growth from the fund value plus future premiums will be enough to cover the life cover and maintain the plan. Zurich noted some of the things that can affect this calculation such as market performance, future unit growth rates and an increase in mortality rates.
- Where a shortfall is identified during a review the sum assured is reduced, or the premiums increased to maintain the same level of cover.
- Mr S had taken a number of partial withdrawals. The last of which had been in 2019, in the sum of £4,500 which had reduced the fund value and had an impact on the 2021 review.
- A review of Zurich's mortality rates had led to an increase, which is reflective of their claims experience.
- The outcome of the review was correct, Zurich can't guarantee no further amendments would be needed at future reviews, as it is dependent on the factors listed above.

Mr S remained unhappy with the response and so he referred his complaint to this service. He said that he had always paid his premiums on time, even when he had been through difficult financial times. He understood that the sum assured would stay the same throughout the life of the policy. But, the sum assured had been halved.

Mr S let this service know that he had originally taken out the ALP to provide protection for his wife. He retained the plan over the years as it was a whole of life policy. He said that Zurich provided a cold review letter and didn't offer an opportunity for him to discuss things with them. Had he been able to speak to them he could have considered his options, for example to surrender the policy.

An Investigator considered Mr S's complaint, they didn't uphold it. In summary the Investigator said that the policy terms and conditions allowed for reviews of the policy, that information had been provided to Mr S in a clear way which is in line with their regulatory

obligations and good industry practices. The Investigator also said that the implications of Mr S taking a partial surrender were made clear to him.

Mr S didn't agree with the outcome and so he asked for an Ombudsman to consider his complaint. In summary Mr S made these additional comments:

- The merger between Allied Dunbar and Zurich was supposed to create more efficiency.
- The partial surrender in 2019 was five times more than the deduction to the sum assured.
- Zurich have shared selective information with this service, as it has been said that the review letters are not available.
- No option was given in response to the 2021 review, Mr S didn't respond and the reduction happened automatically.
- Zurich have mentioned Covid-19 as a factor in the failed review. Mr S understands that customers have suffered due to this when Zurich staff have received increases in salary and bonus payments.
- He has suffered anxiety due to insecurity due to the decrease in his safety net as he ages.

The complaint was passed to an Ombudsman for consideration.

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.

I appreciate this will come as a disappointment to Mr S, but, having done so I'm not upholding his complaint. I will go on to explain why in detail below.

When considering what's fair and reasonable in the circumstances, I need to take account of relevant law and regulations, regulator's rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice at the relevant time.

In reaching my conclusions, I've considered in particular:

- The FCA's Principles for Businesses, in particular Principle 6 and Principle 7;
- The FCA's Conduct of Business Sourcebook (COBS), in particular COBS 2.1.1R(1) and COBS 4.2.1R(1)
- The FCA's Final guidance on the "Fair treatment of long-standing customers in the life insurance sector" (FG16/8).

I think it's helpful to explain firstly how RWOL policies generally work in practice. The premiums paid cover the cost of life cover (mortality cost) and any charges. Anything above that is invested to build up a fund. At the start, when the cost of life cover is lower, more of the premiums are invested. Zurich have explained that the cost of providing cover is based on the sum at risk – the difference between the sum assured and the fund value. They've said the policy is designed so that the fund builds up over time to meet the sum assured on death. This means the sum at risk should steadily reduce as customers get older to offset the increase in the mortality charge.

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. Zurich have explained that when they set up a RWOL, and at each review, they are looking at the performance of the policy for its life. So, if all of the assumptions they make are accurate, no increase of premium would be needed for the life of the policy.

The opportunity for consumers to make decisions about key changes to the policy is a key event in the life of the policy. I think that there was an expectation reiterated in FG 16/18 that consumers needed to be provided with sufficient information about their policies in order to be able to make informed decisions about them. I think this is particularly relevant in relation to the point in time when the 'tipping point' is reached. The point at which the mortality charges exceed the premiums being paid. And I think it is relevant when Mr S requested a partial encashment of his policy. I say that because, withdrawing some of the fund significantly increases the chance that the policy will not remain viable at the same premium level.

Mr S has said that he thought the policy would provide a fixed amount of cover for the whole of his life. I have considered the policy terms and conditions, and I don't agree. It is clear from these that this is a reviewable whole of life policy. Which means that at intervals throughout the life of the policy Zurich will carry out reviews to check that the assumptions they made at the outset are still appropriate. Following a review, if the policy is no longer able to sustain the sum assured changes will need to be made to it. So, Zurich were right to carry out the review.

I've been provided with the yearly mortality charges vs the premiums that were being paid. The mortality charges up to the policy year 2021 did not exceed the annual premiums Mr S was paying. And so, the ALP hadn't reached a tipping point up to the review Mr S complains about.

Information provided to Mr S on partial withdrawal of the funds

I have considered the partial withdrawal form that Mr S completed and signed. It started by explaining that any withdrawal would reduce the sum assured proportionately. So, the percentage of the fund value withdrawn, would reduce the sum assured by the same percentage. An example is given of taking 25% of the fund value will reduce the sum assured by 25%.

Zurich set out that the actual withdrawal amount would be immediately deducted from the sum assured. And then at the next review date the remainder of the percentage would be deducted. I'm satisfied that this information was clearly set out within the withdrawal form which was signed by Mr S.

Mr S was receiving annual statements and so he knew that his policy value was around £4,700 at the time of the withdrawal in 2019. By withdrawing £4,500 he had taken 96% of the fund value. So, I think he could reasonably have expected the sum assured to be reduced significantly at the next review. I'm therefore satisfied that Mr S had been given enough information in a clear and not misleading way, which ought to have notified him of the consequences of withdrawing the funds. Mr S decided to withdraw funds on the understanding that his sum assured was likely to be significantly reduced. I therefore can't agree that Mr S wasn't aware that his sum assured would be reduced at his next review date which was in 2021.

Other points raised by Mr S

Mr S has said that the merger between Allied Dunbar and Zurich was supposed to create more efficiency, and he mentioned salaries paid to staff. This merger and the way Zurich operate their business has not had any impact on the policy Mr S has – I'm satisfied it has continued to operate within the terms and conditions set out when it was initially set up. I'm also satisfied that I have received enough information from both parties in order to conduct a full and complete review of Mr S's complaint. Options were available to Mr S following the review of 2021, and he was advised what would happen if he did not respond to the review. Had Mr S wanted to select a different option to that of the default he needed to contact Zurich prior to the deadline given.

Summary

Mr S complains that he didn't know his sum assured could be reduced – he thought he had the same level of cover for his lifetime. I'm satisfied that is not the case, the product Mr S has is a reviewable whole of life policy and so Zurich were right to carry out the reviews they did in line with the terms and conditions of Mr S's policy. I considered if Zurich had provided Mr S with enough information so he could make informed decisions about his policy. The point identified as important was when Mr S withdrew significant funds in 2019. Zurich made it clear to Mr S that if he withdrew those funds his sum assured would be reduced in a proportionate way. I'm satisfied therefore that Mr S was aware of the consequences of the withdrawal, and he went ahead with it anyway. I appreciate this will come as a disappointment to Mr S, and I was saddened to hear that he has been feeling anxious about his complaint, but, I'm not upholding it.

My final decision

I don't uphold the Trust's complaint about Zurich Assurance Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 25 November 2025.

Cassie Lauder
Ombudsman