DRN-4701859

The complaint

Ms H, Mr W, Mrs W and Mr W as trustees of The W Trust (the trustees) complain about the way Zurich Assurance Ltd has administered the W Trust's reviewable whole of life policy. They're unhappy at the changes required to the premium to maintain the sum assured.

What happened

The original policy was taken out in 1993 to provide a sum assured of £200,000 for a monthly premium of £83.38. It was a reviewable policy, so reviews were carried out at regular intervals to determine whether the premium being paid was sufficient to maintain the sum assured for life.

Zurich carried out reviews in 2003 and 2008. I've not seen copies of those reviews, but Zurich has confirmed that in 2003 the sum assured was reduced to £149,662 due to the cost of cover being higher than expected – and in 2008 the sum assured was increased to £171,331. Further reviews were carried out yearly from 2013 onwards.

Until 2020, each review essentially confirmed that the policy had either performed as expected or better than expected and so the sum assured was increased – in 2013 it rose from £171,331 to £176,447 and by 2019 the sum assured was £189,699.

Each review contained some basic information about the policy – such as how much the premium was, how much the sum assured was, and what changes were required. The letters also explained the purpose of the reviews and enclosed a review "booklet", which set out general information about the plan, what Zurich takes into account when carrying out a review and what options a consumer would have.

In 2020 Zurich reviewed the policy and the sum assured was reduced to £178,881 due to the costs of providing cover being higher than expected – in 2021 this was reduced further to £159,274 and a further reduction was necessary in 2022 when the sum assured needed to be reduced to £129,985 – or the premium increased from £83.38 per month to £195.52.

As a result of the reduction in cover, the trustees complained. In summary, they felt the increases required were unacceptable and unfair. They felt the changes needed showed that the policy hadn't been managed properly and the sum assured was now being reduced at the very time when it might be needed for IHT purposes. Zurich looked into the complaint but didn't think it had done anything wrong. In summary, it considered that the policy had worked as intended and the reviews were carried out in line with the terms.

One of our investigators looked into the complaint, but didn't think it should be upheld. The investigator noted that the trustees had complained about the sale of the policy, but the evidence indicated that Zurich didn't recommend the policy – it was recommended by an independent financial adviser.

The investigator then looked at Zurich's communications throughout the life of the policy. He noted that the outcomes of the various reviews and considered Zurich's communications and the relevant standards. He concluded that Zurich's letters were fair, clear and not misleading. He considered that Zurich had explained why further changes to the policy were required in 2021 – namely that following an assessment it carried out of mortality costs and other industry information, it concluded that it needed to increase the cost of providing life cover.

The investigator noted that Zurich had reviewed the policy on a standard basis, with a view to the policy providing cover for life. Furthermore, the policy had worked as intended – the fund had built up over the years and this helped support the policy going forward, when the life cover costs would become more expensive.

The trustees didn't agree with the investigator. In summary they said:

- The investigator had focused only on form and procedure and not addressed their fundamental complaint that the policy taken out in 1993 for £200,000 was now only worth £129,980.

- They maintained there was no financial adviser involved in the sale of the policy.

- The investigator had ignored the trustees claims of "gross mismanagement" of the policy. They said the investigator was saying that as long as Zurich communicated with policyholders, it was acceptable for the life policy to drop from £200,000 in 1993 to £129,980 in 2022. They said the surrender value wasn't relevant to them. They said it was impossible to make sensible IHT planning given the significant reduction in the value of the policy.

As an agreement couldn't be reached, the case was passed to me to decide.

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've reached broadly the same conclusions as the investigator and for essentially the same reasons.

The sale of the policy

I should say firstly that I'm satisfied by the evidence I've seen that an adviser sold or recommended the policy at the time. Given the amount of time that has passed since the sale, it isn't unusual for very little information from the sale to be available. Zurich has confirmed that an IFA sold the plan and has provided a photocopy of the section of the initial application form showing the details of the specific IFA, which would not have been present had an IFA not sold the plan (this was shared with the trustees). So I'm persuaded Zurich wasn't responsible for recommending the plan - therefore how suitable it was and how it was sold aren't things I can comment on further.

The reduction in the sum assured

I've then carefully considered the trustees' comments and, in particular, their fundamental complaint about the drop in the sum assured between 1993 and now.

I understand why the trustees think that the investigator incorrectly focused on "form and procedure" rather than focusing on the reduction in sum assured from 1993 to the present day.

The policy itself was designed to provide cover for life at lower premiums in the early years. But as a “reviewable” whole of life policy, the possibility of changes to the sum assured or to the premiums were inbuilt into the terms and conditions – including how those reviews would be carried out and at what intervals. Although I appreciate the trustees will disagree, the policy did achieve this aim – it provided the cover it said it would and Zurich would’ve paid out had there been a claim on the policy during the period in question. This is a benefit which the trustees have enjoyed since the inception of the policy – the fact that a claim has not been made on the policy does not mean that the trustees have not benefited from the cover being provided.

So, I’ve then considered the drop in the sum assured – in particular, what the trustees were told during the life of the policy and what caused the drop.

The evidence I’ve seen shows that the drop in the sum assured was due to the increasing life cover costs and the underlying fund’s growth over the relevant time. There’s no evidence that the policy was mis-managed and the reduction in sum assured is not evidence of that either.

Furthermore, the amount Zurich charges for the life cover it provides isn’t something the service is directly able to look into or question. The cost of providing cover isn’t fixed and instead increases over time as the lives assured get older. From the inception of the policy, the difference between the premiums being paid and the charges results in an investment pot being built up. The difference between the sum assured and the value of the pot is referred to as the sum at risk, and it is this figure that is used to calculate the charge for providing cover.

Over time, businesses will undertake reviews to ensure that a 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.

Ultimately, the increase in premium (and/or decrease in cover) is largely down to increases in mortality costs, which are a matter for Zurich’s commercial judgement. I have not seen sufficient evidence in this case to say Zurich has not exercised its commercial judgment legitimately. There is an obvious basis for the increases in mortality cost (the increasing risk, associated with age). I appreciate the trustees have their own view of how Zurich has managed the policy, but in terms of the life cover charges, I’ve seen insufficient evidence to show that the calculation of the cover charge was not a legitimate exercise of Zurich’s commercial judgment. Zurich was entitled to take a reasonable view of the risk the policy posed to it and, on a commercial basis, put a price on that risk. And it did so following a typical process, run by industry professionals, which were subject to oversight and regulation. And as I’ve said above, the risk increased with age – and therefore, so did the costs associated with that risk.

In looking at the communications which Zurich issued, I do think the review letters ought to have given the trustees more information. In reaching this conclusion this, I’ve taken into account the rules set out in the FCA’s Handbook, the high level principles, as well as guidance issued by the FCA in 2016 on how long-standing customers in the life insurance sector ought to be treated and communicated with.

Broadly, these standards required Zurich to ensure that important communications about the trustees' policy were fair, clear and not misleading – including "sufficient and clear explained details regarding the performance of the product, its value and the impact of fees and charges". For a policy like this one, this should've included "the value at the previous communication date and the value of any premiums paid over that period" as well as the "charges incurred over the period in monetary figures" including "a breakdown of the major components and the charge to the customer for benefits such as life cover and guarantees" (FG 16/8 *Fair treatment of long-standing customers in the life insurance sector*).

The letters I've seen don't do this – they don't set out the charges in a monetary way or provide information that would've allowed the trustees to understand how the policy was performing and how aligned to their objectives it remained.

However, in this case, the policy was set up on a "standard" cover basis and was hence reviewed with the objective of ensuring premiums were sufficient to sustain it for life; and from the evidence I've seen, it does not seem it was ever in an unsustainable position. Whilst there were changes to the sum assured (increases and decreases), the premiums were always enough to meet the life cover charges and the investment pot did continue to accumulate. So I don't think there is any basis on which further information provided in review communications would have led the trustees to take any action; and therefore any basis on which to say the trustees might now be better off as a result.

I say this because the information would not have shown the policy to be in an unsustainable position. Having the actual figures of how the policy was performing would've allowed the trustees to know more about the changes that might be required in future – but the letters, annual statements, and the review "booklets" that were included all explained in generic terms why the policy was regularly reviewed and what might happen following those reviews. So I'm persuaded that the trustees knew, throughout the life of the policy, that future changes would likely be required – although I accept they wouldn't have known exactly what those changes would look like.

However, the policy was set-up to mitigate an estimated IHT liability. So even if the trustees had been given more information about their policy, I'm not persuaded it would've made any difference to the options the trustees had available. The cover is clearly important to them.

Although it's clear that the sum assured has fluctuated since 1993 and is now lower than what it was originally set at, I've seen insufficient evidence that this came about as a result of any mis-management of the policy. Instead, the evidence I've seen shows that Zurich reviewed the policy in line with the terms and conditions and there were no other points during the life of the policy which required Zurich to take any other action.

In my view the relevant standards *did* require Zurich to provide more specific information about the performance of the policy at regular intervals – but I'm persuaded the information that *was* provided was sufficient for the trustees to make informed decisions, at critical points, about what they wanted to do with the policy going forward. For all these reasons, I'm satisfied it wouldn't fair and reasonable to uphold this complaint.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H, Mr W, Mrs W and Mr W as Trustees of The W Trust to accept or reject my decision before 30 December 2025.

Alessandro Pulzone
Ombudsman