

The complaint

Mr and Mrs W complain about a reviewable Whole of Life policy – the Adaptable Life Plan ('ALP') – held with Zurich Assurance Ltd ('Zurich'). They're unhappy they were asked to significantly increase their premium to maintain the policy's sum assured after the 2022 review.

What happened

I've outlined what I think are the key events and points involved in the complaint below.

Mr and Mrs W took out an ALP, which commenced in 1994, and Zurich is now responsible for this complaint. I understand the sum assured was initially £292,000. It was taken out on a standard cover basis and the plan's sum assured was subject to an automatic inflationary increase option, seemingly until 2008 when this was cancelled. The policy was subject to a review at the 10-year anniversary and then every five years thereafter. That is, until the older of the lives' assured turned 70, after which reviews take place every year.

In Zurich's 2022 review letter, which I think the complaint centres on, it said it was making some changes to the cost of cover, which it said were explained in an enclosed leaflet. It said the cost of providing cover was higher than it expected, so the payments now support a lower level of cover. And Mr and Mrs W were told they'd need to increase their annual premium from just over £10,050 to just under £18,700 to maintain the sum assured. Or instead, the sum assured would decrease from £1,000,000 to just under £751,000.

In September 2022, Mr and Mrs W complained to Zurich about the administration of their policy and the resulting 86% premium increase requested in the 2022 review letter, the scale of which they feel is unfair. And that they feel they have no protection against reviews being done in Zurich's favour given it recently told their adviser, amongst other things, that the models used by its actuary have no regulatory oversight other than at a high level internally.

Zurich gave its final response and said, in summary, that:

- It couldn't share its review calculations, but it had checked these and confirmed these are correct. Policy reviews reflect its latest best estimate assumptions of the cost of cover and likely investment returns and aren't done in favour of shareholders. The review intends to keep the plan on track to provide the cover and can equally lead to increases in this.
- Mortality costs increased due to a review it conducted in 2020. And the 2022 review outcome was caused by lower-than-expected fund performance since the 2021 review, together with a reduction in 2022 of its assumption for the rate of investment growth that might be achieved in future.
- The plan value only increased by around 0.8% between 2021 and 2022. And over the past year to 31 July 2022, fund performance has been negative. So the plan has not achieved the investment return of 6.25% it assumed at the previous review. And it believes the long term outlook is for interest rates to remain low compared to historical levels, so in 2022 its growth rate assumption was reduced to 4.75%.
- Reviewing assumptions underlying policy reviews is in line with policy terms and

conditions and updating these is intended to help ensure Zurich treats customers fairly and in line with contractual terms. Although there is no direct regulatory oversight of the specific models used, Zurich's own standards and practices are applied to such changes to ensure these are fair and realistic, and its overall approach is subject to regulatory oversight.

Unhappy with this, Mr and Mrs W referred their complaint to our Service. And we gave a separate decision which said, in summary, that Mr and Mrs W's complaint about the scale of the premium increase following the 2022 review has been made in time for us to be able to consider it. So, for clarity, I don't intend to comment on that again here. Instead, my decision focuses on the merits of Mr and Mrs W's complaint.

One of our Investigator's reviewed the complaint and said that they weren't asking Zurich to do anything. They said, in summary, that at each review Zurich was assessing the policy on the basis it was providing the cover for life, not just to the next review. And they've seen nothing to suggest there has been a time when the policy has become unsustainable based on its costs. While significant changes were needed in 2022, Zurich has provided the policy and carried out reviews in the way it is entitled to. Its calculations are commercially sensitive. It couldn't have appreciated at the policy outset that such changes would be needed. And Zurich has reasonably explained that its amended assumptions for investment growth, and for mortality rates due to its claims experience, are what led to the 2022 review outcome.

Mr and Mrs W didn't agree. They said, in summary, that:

- While it isn't in dispute that the policy can be reviewed, they weren't told the premium could increase by the scale it has – over 85% in one year. And they feel that the clause '*The premiums may increase to cover a change in circumstances and market conditions*' doesn't adequately explain the magnitude of possible increases.
- The sudden and substantial increase without transparent justification raises questions about fairness and accountability of Zurich's decision-making process. Being denied the calculations leaves them without adequate protection from unfair practices. And Zurich should provide a clear and detailed explanation of calculations and factors considered in implementing the premium increase.
- The lack of direct regulatory oversight of Zurich's calculations and assumptions means they are at its mercy in determining the product cost. And they hope the complaint outcome is that the regulator accepts there's a gap in protection.

Because no agreement could be reached the case has been passed to me for 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.

Having done so, while I understand Mr and Mrs W will be disappointed, I'm not asking Zurich to do anything for the following reasons, which are largely the same as those given by our Investigator.

In deciding this complaint, I've taken into account relevant law and regulations, the Regulator's rules, guidance and standards and 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 also considered, amongst other things:

- The FCA's Principles for Businesses, in particular Principle 6 and Principle 7 (PRIN).

- 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).

While I've carefully considered the entirety of the submissions the parties have provided, my decision focuses on what I consider to be the crux of the matter. In this case, being whether or not Zurich acted fairly and reasonably when it requested the premium increase that it did in its 2022 review letter. The purpose of my decision isn't to comment on every point or question made, rather it's to set out my decision and reasons for reaching it.

I think it's helpful to explain how reviewable Whole of Life policies generally work in practice. The cost of providing cover isn't fixed and instead increases over time 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. 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 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 and make assumptions based on their experience and expectations in light of this. And 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, in the way Mr and Mrs W were.

I think it's important to note at this point that when Zurich set up this policy, and at each review, it was focused on making the policy last for the remainder of Mr and Mrs W's lives. It would always have been Zurich's expectation that at some point the cost of cover would exceed the premiums being paid, but that this would be offset by the return provided by the policy's underlying unit fund.

So, if all the assumptions Zurich makes are accurate, no increase of premium would be needed for the life of the policy. However, that of course, couldn't be guaranteed, as the reviews rely on assumptions about future events in the way I've said, which might not be borne out in practice. The changes that might therefore be required at reviews – the scale of which I don't think could reasonably have been anticipated at the outset for the same reasons – can be significant, as in Mr and Mrs W's case. And there hasn't been any suggestion that Zurich gave Mr and Mrs W any guarantees either way about possible review outcomes and premium amounts. Instead I note that policy correspondence, such as their 2007 annual statement, set out that payments may change and aren't guaranteed.

I appreciate Mr and Mrs W have said they want Zurich to provide them with the review calculation or a clearer and more detailed explanation behind the premium increase. And that they want more regulatory oversight and scrutiny of the models Zurich has used. But this Service isn't intended to regulate businesses – that is the role of the Financial Conduct Authority. I wouldn't expect Zurich to provide Mr and Mrs W with its calculations as these are considered commercially sensitive. And I think it provided Mr and Mrs W with a sufficient and reasonable explanation behind the requested premium increase in the circumstances in its final response letter.

From what I've seen the 2022 review in Mr and Mrs W's case was impacted by a few main factors. I'm aware from experience, and I can see, that the policy's underlying fund hadn't

performed as well as expected. Zurich has explained that instead of the 6.25% it had projected, fund performance was negative in the 12 months prior to the end of July 2022. In addition, I can see Zurich changed its assumptions around how much it expected the fund to grow by each year from 6.25% to 4.5%. The impact of these factors was that for the policy's underlying fund to be at the level required to meet the sum assured in the future, more money needed to be paid into it each month, so an increase in premiums was needed. Alternatively, Mr and Mrs W were given the option to reduce the sum assured to a level that Zurich thought would be supported by the size of the underlying fund at the time.

Taking the above into account, I don't think it was unreasonable in the circumstances for Zurich to have revised its assumptions given the poor performance. I think the revision was in line with regulator guidance under outcome 3 of FG 16/18, for example, which said, "*The firm gives adequate consideration to, and takes proper account of, fund performance and policy values in a way that ensures it treats its closed-book customers fairly and proportionately.*" It doesn't seem unfair to me for a firm to revise its assumptions, which are based on *its* experience and expectations, to correctly reflect what it was seeing in practice.

And I've seen no evidence to show the premium increase requested in Mr and Mrs W's case wasn't a legitimate exercise of Zurich's commercial judgement. It was entitled to take a reasonable view of the risk posed to it and put a price on that risk. And I think it has done so following a typical process, run by industry professionals.

I also think it's important to bear in mind that if Zurich hadn't reviewed its assumptions, this could have resulted in a much worse outcome for Mr and Mrs W in future – if underperformance hadn't been accounted for then the underlying fund would be below the level needed to sustain the policy for the rest of their lives, which could result in even larger premium increases or reductions in the sum assured being required. Whereas if investment performance exceeds Zurich's revised assumptions in future then they could be offered an increase in the sum assured for the same premium.

So, having considered the available evidence, I don't think Zurich acted unfairly or unreasonably in the circumstances. I'm satisfied that Zurich has been reviewing the policy with a view to ensuring that it is able to guarantee the sum assured for the life of the lives assured and not just until the next review date. As part of doing this, it is entitled to assess the costs of providing the life cover based on what it considers are its risks. This is what it has done and I'm persuaded this is consistent with its obligations.

For these reasons, although I understand why Mr and Mrs W are concerned about the premium increase, I'm not persuaded Zurich has done anything wrong and I'm not asking it to do anything.

My final decision

For the reasons given, I'm not asking Zurich Assurance Ltd to do anything.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Mrs W to accept or reject my decision before 13 November 2025.

Holly Jackson
Ombudsman