DRN-4897248

The complaint

Mr M complains about a reviewable critical illness policy he holds with Zurich Assurance Ltd. He's unhappy with reductions in the policy's sum assured after a policy review and thinks it was mis-sold to him.

What happened

Mr M was advised to take out the Lifetime Plus Plan (LPP), a type of reviewable critical illness policy, in 2003. It was designed to provide critical illness cover of £268,000 for ten years for monthly premiums of £52.91, after which there was the option to continue with that level of cover for another 10 years or reduce it to £45,776. He accepted the recommendation, and the plan was put in place.

The policy was subject to regular reviews every five years. Following the 2008 review, the level of cover reduced to £251,336 as the option to increase the monthly premium to maintain the sum assured wasn't taken up. In 2013, Zurich wrote to Mr M and explained that if he wanted to maintain the level of cover for another 10 years, he'd have to increase his premiums to £109.07. Mr M didn't take up this option, so the sum assured reduced to £42,930.

There were no changes required at the 2018 review, but this wasn't the case at the 2023 review. The outcome of this review was that in order to maintain the sum assured, the premiums needed to increase to £82.05. If they weren't increased, then the sum assured would reduce to £33,201.

Mr M complained to Zurich about the outcome of the review. He explained that when he'd taken out the policy, he was told that it would provide cover of £42,930 and he didn't believe Zurich could change this figure. If he'd been made aware that this was possible, then he wouldn't have taken out the policy.

Zurich looked into his concerns but didn't uphold the complaint, so Mr M asked us to look into the matter. It was considered by one of our investigators who didn't think it should be upheld. In his opinion, Zurich had managed the policy in line with its terms and conditions, so he didn't think they'd treated Mr M unfairly.

Mr M didn't accept the investigator's findings and maintained that he'd been treated unfairly. He explained that he'd been told in 2003 that he'd receive £268,000 of cover for ten years and then £45,776 thereafter for premiums of £52.91 per month. He didn't think that changing the terms of the policy was fair given what he'd been told at the time he took out the policy. He also noted that he hadn't been provided with detailed contract terms and thought that the reason for the changes was because the scheme had been badly operated.

The investigator wasn't persuaded to change his opinion so the complaint has been 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 don't think it should be upheld and I will now explain why. I've firstly considered if Mr M was mis-sold the policy. At the time of the recommendation, he was married with three dependent children. He had existing life cover in place which was sufficient to cover his outstanding mortgage. However, it didn't offer protection in the event of a critical illness.

The advisor recommended the LPP as it provided the level of critical illness cover required, for a monthly premium which was within Mr M's budget. As previously noted, it was designed to provide this level of cover for ten years and then there would be the option to either continue with that level of cover or reduce the sum assured. It was reviewable which meant that premiums or the sum assured could be subject to change after each review. This information was set out in Mr M's personal illustration and the policy's key features document.

Broadly speaking, a reviewable policy isn't generally used to protect a mortgage, a term assurance policy is usually used for this purpose. However, it was noted that this option was discussed and discounted as Mr M wanted to cover to continue for life in order to provide family protection.

Having taken everything into account, I don't think the recommendation was unsuitable in principle. It met Mr M's need for critical illness cover, it was within his budget and also offered the flexibility required to then provide family cover after the term of the mortgage had ended. Therefore, I don't think he was mis-sold the policy as it broadly met his requirements at the time.

I've then gone on to consider if Zurich treated Mr M unfairly by reviewing the policy and making changes to either the sum assured or monthly premiums. I take Mr M's point that the policy schedule from 2003 says that the sum assured is £268,000 for the first ten years and then £45,776 thereafter. But it also says that the first review date for the policy will be on its fifth anniversary and also that other terms and conditions apply.

These terms and conditions say:

"We set Contributions by making a number of assumptions: in particular, assumptions about increases in the value of units (see Section 7.5 above), the future level of Risk Deductions (see Section 8.4 above) and the rate at which the Expense Deduction will increase (see Section 8.3 above). If these assumptions were too conservative, the price of the Plan would be too high. Therefore, they are set at what the Actuary considers to be reasonable levels.

However, if in the light of experience and the information available to him. the Actuary decides that the Contribution is not high enough, we can reduce the Benefits unless You pay an increased Contribution."

In my opinion, this clearly shows that the policy was subject to reviews which could vary either the sum assured or premiums. Therefore, I don't think Zurich have treated Mr M unfairly by undertaking reviews and making changes to the policy as this was how it was always meant to operate.

It may be helpful if I explain how the policy broadly works in practice. The reason for any proposed changes is because at the outset, the policy's premiums would've been set based

on Zurich's assumptions around mortality rates and potential investment growth. If those assumptions turned out to be inaccurate, then Zurich's actuary will decide what changes need to be made to the policy. If these changes aren't made, then there is the possibility that the policy may become unsustainable. Therefore, the need to undertake these reviews in order to ensure that the policy is on track to provide its benefits, is in line with the terms of the policy.

It's also important to note that Zurich had a requirement to ensure that they were providing Mr M with clear, fair and not misleading information about the policy. The changes they proposed after each failed review were taken with a view to ensuring that policy was sustainable for the initial ten year maximum cover period, and then for the rest of its life once it changed to lifetime cover. I don't think this was unreasonable and doesn't mean that they treated Mr M unfairly.

I have also considered if Zurich provided Mr M with all the information they should have done about the policy. They were sending him yearly statements and review letters which provided key information about the policy and the review process. However, I haven't seen that they provided Mr M with information about all the policy's charges. There was a period from around 1 April 2011 to 31 March 2013, just before the end of the maximum cover period, where the costs of the policy were higher than the premiums being paid but Mr M wasn't made aware this was happening.

However, I don't think that he would have taken a different course of action even if he'd been provided with details of the policy's charges. I say this because in February 2013, the policy was nearing the end of the ten year maximum cover period. At this point, Zurich gave Mr M details of the premium required to extend the maximum cover period for another ten years. They also explained that reason the level of premium would have to increase was because of changes in investment performance and trends in health which affected the cost of providing cover. Mr M didn't take up the option to extend the level of cover, despite not having full knowledge of the policy's charges. It doesn't seem likely that even if he knew the specific level of charges being applied to the policy, he would have made a different decision and chosen to extend the maximum cover period.

Since that time the costs of the policy have been significantly lower than the premiums being paid which has allowed the policy to build up an underlying investment pot. I appreciate that despite this, changes were required after the 2023 review. However, the changes mainly came about because of a downgrade to Zurich's growth assumptions from 6.25% to 4.75%. Zurich are within their rights to amend their assumptions and in doing so, they've provided a more accurate reflection of the premiums needed to maintain the level of cover on the policy for life. I don't think this is unfair and it's in line with the terms and conditions of the policy and also the regulator's requirements.

So, having considered everything, I don't think the policy was mis-sold or that Mr M has been treated unfairly.

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 Mr M to accept or reject my decision before 25 July 2025.

Marc Purnell
Ombudsman