DRN-4922842

The complaint

Mrs D and Mr D as trustees of the D Trust complain about Zurich Assurance Ltd's review of their whole of life policy and its decision to require significant increases in the premium or reduction in sum assured.

What happened

Mrs D took out a reviewable whole of life policy (RWOL) in 1997 called the Adaptable Life Plan. The policy was originally to mitigate inheritance tax and benefited from indexation increases, which meant that by 2023 the sum assured had grown to £201,269 for an annual premium of £5,562.04.

In 2023 the policy was reviewed and changes were required. The sum assured either needed to reduce to £151,030 or the premium needed to be increased to £13,644.05. As a result of the magnitude of changes required, Mr D complained.

Zurich looked into this complaint but didn't think it had done anything wrong. In summary, it said that the policy had been reviewed and maintained in line with the terms and conditions.

Mr D remained unhappy and referred his complain to this service. One of our investigators looked into the complaint and concluded that it shouldn't be upheld. In summary, she said that Zurich was reviewing the policy in order to see if the sum assured could be maintained for the rest of Mrs D's life and this was how the policy was intended to work. She said that Zurich requiring changes to the policy was based on the life cover costs increasing and investment performance not increasing the value of the fund by as much as was necessary.

Mr D didn't agree and asked for an ombudsman's decision. In summary he said:

- He accepted that the terms and conditions allowed Zurich to make the changes that it did but he said that it wasn't fair. He said that the fact that Zurich can request such an increase in premiums, at any point, gave no certainty or accountability, or any protection for the consumer.

- There were a number of instances where Zurich failed to provide information on time or at relevant key points and he had to do a lot of chasing. He said it was particularly challenging given the changing outcomes of the reviews and the changing levels of cover and premiums. Mr D explained that all this was happening at a difficult time for him for personal reasons.

- Ultimately, Mr D explained that his complaint was about the exorbitant premium increases and that fact that after 26 years of paying into the policy, they were suddenly being asked to increase their premium by 221% - an increase which forced them to cancel a policy they otherwise would've kept in place.

I wrote to Mr D and explained:

- I'd considered his comments about the missed review letters in 2020 and 2021, as

well as the 2023 review letter which was received late. I said that I thought an additional £150 compensation for those failings was fair and reasonable but I didn't identify a financial loss or other impact from those failings.

- The type of policy Mrs D had was designed to have an investment element to pay for the increasing costs of life cover in future. I explained that in circumstances where the costs of the policy outweighed the premiums being paid, we expected firm to communicate this clearly to consumers in order to give them an opportunity to make changes to the policy.

- In Mrs D's case, that point was only reached in 2021. I said that at the next review, in 2023, Zurich should've set out how much the policy was costing (by that stage over £7,500 versus a yearly premium of £4,244) and it didn't do this. But even if that information had been conveyed to Mrs D, the options available to her as a result of the review would've been the same.

- The rise in life cover costs was typical for these types of policies, particularly as the life assured got older.

Mr D outlined a chronology of events that led them to cancelling the policy, and explained that he had felt the policy needed to be cancelled because of the constant changes to the premium and sum assured. They felt it was unfair that Zurich was able to enforce such significant changes to the policy. Mr D said that he knew the policy was reviewable and accepted "reasonable, fair, affordable premium increases" but 221% increase in 12 months was too much. He said that expecting a client to meet such drastic increases in premium in such a short space of time was unreasonable and unfair and this is why he felt that Mrs D and Mr D had been financially disadvantaged. He said that whilst he understood my reasons, he didn't agree with my award and felt that they had been unfairly treated by Zurich.

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've reviewed all the evidence again and unfortunately I don't have much to add to what I previously said to Mr D.

Fair, clear and not misleading communications

The way in which Zurich charges for the life cover it provides isn't something the service is directly able to look into or question. Whilst I can understand why the staggering increase in costs, and therefore premium, had a profound impact on Mrs D and Mr D's ability to keep the policy in place, I'm satisfied that this was done in line with the terms and conditions of the policy.

However, I did have concerns about some of the communications that were issued to Mrs D and Mr D.

As I explained, I thought the review letters ought to have given them more information. In reviewing 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 Mrs D's 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 the one Mrs D had, 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*).

I can see that, for example, the review letter in 2023 outlines the options available to Mrs D in terms of increasing the premium or reducing the sum assured – but there's no additional information in that letter about the costs of the policy nor any way in which Mrs D could see for herself how those costs had increased from the previous year, or how they were likely going to increase going forward. So I can understand why Mr D raised his complaint and also why he felt they had no option but to surrender the policy – they couldn't be sure that further significant increases might not be required in future.

Although I've not seen a copy of the annual statement from 2023, I've seen one from 2019 and this also doesn't contain this information. It merely sets out the life cover, the premium and the value of the fund (as well as the fund name) – but there's no comparison from one year to the next and no indication of how much the life cover is costing (other than a generic statement that says "we take a monthly charge to cover the cost of providing your life cover" and that this amount depended on the customer's age and the difference between the plan value and the amount of life cover).

This means that, in my view, the letters weren't fair, clear and not misleading because they didn't give key information to Mrs D and Mr D about the policy, what it was costing or how sustainable it was going forward. In my view, those letters wouldn't have enabled them to understand why there were being asked to increase their premium by so much, nor whether it was in their own interests to do.

However, my role then requires me to consider what Mrs D and Mr D would've done had they been given fair, clear and not misleading information. And looking at the evidence, I'm not persuaded Mrs D and Mr D would've done anything differently. Ultimately it wasn't until 2021 that the life cover costs exceeded the premium – and the options available to them at that point would've been essentially the same as those contained in the failed review of 2023.

It's clear that the level of increase of the premium or reduction in sum assured was not acceptable or aligned with Mrs D and Mr D's objectives for the policy. Had they been given further information to show how much the costs of life cover had increase and been given some indication of how those costs might increase in future, I think they would've likely surrendered the policy as they did and for the same reasons.

Other administrative issues

However, I agreed with Mr D that the policy encountered some difficulties with the letters issued in 2021 and 2023 and I agreed that there was clearly some additional distress and inconvenience caused to Mr D as a result, at a very difficult time for him. Whilst I understand that Zurich offered some compensation for these issues that occurred in 2021, my view is that an additional £150 compensation is fair and reasonable given the extent of the issues.

Putting things right

Zurich Assurance Ltd must pay Mr D £150 compensation for the distress and inconvenience caused to him due to administrative issues he encountered with the review letters between 2020 and 2023.

My final decision

My final decision is that I uphold Mr D's complaint and award the compensation I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D and Mr D as trustees of the D Trust to accept or reject my decision before 17 July 2025.

Alessandro Pulzone
Ombudsman