

The complaint

Mr K, Mrs K and Mr K as trustees of the K Trust complain about the way Zurich Assurance Ltd has administered their Adaptable Life Plan, a type of reviewable whole of life policy. They complain about the increase in premiums as a result of the reviews.

What happened

The policy was taken out in 1992 for the purpose of mitigating potential inheritance tax. The initial sum assured was £140,000 for an annual premium of £1,280. The policy included an Indexation Benefit, which essentially meant that the sum assured could increase, in line with inflation throughout the term of the policy.

By the 2023 review, the annual premium was £10,902.20 and the sum assured £337,852. Mr K, on behalf of the trustees, complained to Zurich. In summary, he complained about the ever increasing premiums and the fact that it appeared the sum assured was reducing. He complained that they'd had the policy for 30 years and the premiums required seemed disproportionate. He said that if the premiums kept on increasing at the same rate, then in 10 years' time the policy wasn't going to be worth anything.

Zurich looked into Mr K's concerns, but didn't think it had done anything wrong. It summarised the various reviews over the years and explained why premiums were sometimes increased and what assumptions it used when reviewing the plan. It explained that over the time the plan had been in place, over £125,000 had been paid in for cover worth over £337,000. It said that indexation could be removed from the plan. However, it concluded that it had reviewed the plan in line with the terms and there was nothing incorrect about the figures it had quoted in the last review.

As Mr K remained unhappy, he referred the complaint to this service. One of our investigators looked into Mr K's complaint, but concluded that Zurich hadn't done anything wrong. In short, she said that Zurich had reviewed the plan in line with the terms and conditions, and the increases in premiums were largely explained by the indexation benefit as well as other assumptions not being borne out.

Mr K didn't agree and asked for an ombudsman's decision. He said the whole basis of the complaint was that Zurich was "making the policy wholly unfair towards the policy holders" and felt that it was "increasing the annual premiums at a ridiculous rate without just cause and reason". He outlined how the annual premium had gone up tenfold since the inception of the plan, while the cover had gone from £140,000 to £356,434.

He said that the lives assured had now outlived what would've been expected when the policy was taken out, so Zurich was "on the right side" as far as the policy was concerned and he thought it wouldn't be unreasonable to think the premiums would decrease this late stage. He complained that Zurich appeared to be forcing them to take the cash value of the policy by increasing the premiums unreasonably in order to avoid having to pay out now that it was near the end. He said the average premium increase in the first 26 years of the policy

was 6%, but in the last 6 years it was 13.5% - he said this wasn't fair. Ultimately, Mr K said that he couldn't see how the age of his parents as well as an increase in the mortality rate could be relevant to what they needed to pay under the policy, as this was a whole of life policy and the premiums were set out the outset on that basis.

Mr K also pointed to some news articles and potential involvement of the Financial Conduct Authority (FCA) in looking at these types of plans. He said that "the risk profile associated with this policy has, at worst, remained constant since its inception" and given his parents "extended lifespan, the risk may be considered to have decreased". He said they weren't opposed to paying a "reasonable premium" but the current one was unacceptable.

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.

I understand Mr K and the trustees of the K Trust have been waiting a very long time for this decision. However, having read the investigator's assessment and reasons, I agree that this complaint shouldn't be upheld.

Mr K's starting assumption, that his parents getting older means their premiums should be decreasing, isn't an accurate one. In fact, the older the life assured gets, the more likely the payout and therefore, the greater the risk to the insurer. This isn't the only factor in how Zurich determine the premium payable, but it is one of the factors that influences the cost of life cover that underpins the policy and against which the premiums are calculated. Far from his parents representing less risk, they now in fact represent a greater risk precisely because of the increased likelihood of a claim. Zurich explained this in its final response letter when it said:

"The monthly payment will rise more rapidly, the older a customer becomes, as the mortality costs will become greater and so a larger payment is required to provide the increased sum assured."

This is the reason why the *"indexed sum assured percentage increase and the monthly payment percentage increase have not been the same"*.

As Zurich has explained, Mr K is right that the premiums would've been set at the outset with a view to the policy lasting their whole life. But this would've been based on a number of assumptions in relation to investment growth as well as life expectancy. Where those assumptions are not borne out or turned out to be inaccurate, Zurich will adjust what is payable or reduce the sum assured. As Zurich pointed out, on occasion in the past, it was able to offer higher cover for the same premium because its assumptions had been wrong.

More broadly, I'm satisfied that it wasn't wrong or unfair for the premiums to increase at a higher rate than the sum assured as a result of indexation.

It's clear to me that increasing the sum assured will increase the mortality costs and the difference between the fund that's built up and the amount that might need to be paid – so I wouldn't expect there to be a linear correlation between the increase in the sum assured in line with inflation and the increase in the premium. The terms of the policy clearly outline this under the section "Automatic Indexation":

“An increased contribution will be determined by the Actuary and payable at the Company’s rates then current for this option appropriate to the increased Sum Assured, the then attained ages and the sexes of the Lives Assured and the Risk Classifications”.

Furthermore, although Mr K has made detailed submissions about the amount of money paid into the policy, it isn’t fair not to also take into account that throughout this period Zurich has been on risk for the claim value. This is one of the benefits they’ve received under the policy, as well as the investment growth on the underlying fund which means that there is a significant cash balance that can be withdrawn.

I appreciate Mr K has said that he isn’t necessarily complaining that Zurich has done something untoward or outside of the terms – his complaint is that the situation is unfair on the policyholders.

But for me to uphold Mr K’s complaint, I would need to be persuaded that Zurich has acted inconsistently with the terms of the policy or with its regulatory obligations, when reviewing his policy, and I’m not persuaded it has.

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 – and this is what it has done. I’m persuaded this is consistent with the terms of the policy as well as its regulatory obligations.

For these reasons, although I understand why Mr K is concerned about the increase in the premium, I’m not persuaded Zurich has done anything wrong or in any way mis-managed their policy. As a result, I’m not persuaded there’s anything it needs to do to put things right.

My final decision

My final decision is that I don’t uphold the trustees’ of the K Trust complaint about Zurich.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr K, Mrs K and Mr K as trustees of the K Trust to accept or reject my decision before 23 July 2025.

Alessandro Pulzone
Ombudsman