

The complaint

Ms B is unhappy that Zurich Assurance Limited cancelled her life insurance policy ('the policy') after she missed paying her monthly premiums, in full, for consecutive months.

What happened

Zurich cancelled the policy in April 2023 because it said Ms B hadn't paid her monthly premium (in full) for two consecutive months. It relied on the policy term:

10.4 If you don't pay your premium

If you don't pay a premium within two months of the premium due date, the policy will end and we'll stop providing you with cover. If your premiums are paid by a third party, it's your responsibility to ensure they're paid on time.

We won't reinstate a policy which has ended - if you still need cover you'll need to apply for a new policy.

Ms B didn't think that was fair. She said she was going through financial and employment difficulties at the time.

She complained to Zurich, and it maintained its position. Ms B then brought a complaint to the Financial Ombudsman Service. Our investigator initially upheld the complaint. Zurich provided further information in response to our investigator's view which changed his mind. And, ultimately, he didn't uphold the complaint.

Ms B disagreed so this complaint was passed to me to consider everything afresh to decide. I issued my provisional decision in July 2024 explaining why I was intending to uphold Ms B's complaint. An extract of my provisional decision is set out below.

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Zurich has an obligation to treat customers fairly and when determining this complaint, I've also taken into account the guidance for firms on the fair treatment of vulnerable consumers dated 2021 which I think is relevant here.

In particular section 4.9 which says:

Standard contracts can be inflexible and often don't have easy options for consumers to vary or change them in response to changes in circumstances.

It goes on to give examples of how firms can put this into practice. That includes:

Flexibility to respond to needs of customers impacted by ill health or major life events: Building in flexibility to offer customers forbearance for a specified period without changing contractual terms may be an appropriate response for some vulnerable customers impacted by ill health or major life events, particularly where their financial circumstances are expected to improve soon.

It looks like Ms B didn't pay the premium due in January 2023, but she made an overpayment on 2 February 2023 which brought the account up to date. The overpayment of almost £4 was returned to her. So as of February 2023, I'm satisfied she didn't owe any monthly premiums.

In January 2023, Ms B and Zurich agreed to change the monthly collection date from the 10th of each month to the 25th of each month as confirmed in Zurich's letter to her dated 13 February 2023. That's also reflected in an internal call note Zurich has provided dated 24 January 2023.

So, the next payment of £25.54 was due on 25 February 2023. That wasn't made by Ms B. Zurich sent Ms B a letter dated 14 March 2023 saying she needed to make a one-off payment of £51.08 to settle the unpaid balance. And if it didn't receive payment by 8 April 2023, the policy would be cancelled.

It's not clear why Zurich requested this amount as by this stage only one monthly payment of £25.54 was outstanding. And the next payment was due on 25 March 2023.

It isn't disputed that Ms B paid Zurich £25 (so 54p short of the outstanding amount at that stage) on 17 March 2023. So, her account would've been 54p in debit.

She then didn't make the payment due on 25 March 2023. So, the outstanding balance would've been £26.08.

By way of a letter dated 11 April 2023, Zurich confirmed that the policy had been cancelled. It said:

We recently contacted you about outstanding premiums. Unfortunately, as **we haven't received any payments from you**, your policy was cancelled on 11 April 2023 which means you're no longer protected [my emphasis].

If you decide you still want cover, please complete a new application.

However, I don't think what's written is correct as Ms B did make a payment of £25 on 17 March 2023.

Zurich has said that as the policy was still showing as underpaid, its system will automatically follow the same underpayment process if the rest of the premium arrears had still been in place.

In the individual circumstances on this complaint, I don't think Zurich has acted fairly and reasonably by relying on term 10.4 of the policy terms and conditions and cancelling the policy with effect of 11 April 2023. Although she hadn't made two monthly payments in full by the time Zurich cancelled the policy, she had attempted to pay the premium due for 25 February – albeit a couple of weeks later than she should've but underpaid by 54p.

In its final response letter dated 25 April 2023 Zurich said:

I appreciate the sensitivity of this situation and I can only sympathise with the financial issues that you have informed Zurich of; however, if you had made us aware of this prior to your policy lapsing, we may have been able to make some suggestions or perhaps reduced your cover to help your situation. However, as we had not been made aware, we were unable to help, and your policy ended up lapsing.

However, Zurich has provided a call note dated 24 January 2023 reflecting that Ms B told it that she currently had difficulties with the “regularity” of payment. And that she was trying to get a permanent job but at that time, she only had temporary placements. It’s noted that she said: “lots of changes, nothing is continuous (with her work)”. Although it’s reflected that the representative “acknowledged and empathised”, I’ve seen nothing to suggest that, at that stage, Ms B was given options to support her (apart from the premium collection date being changed from 10th to 25th of each month at Ms B’s request).

At the end of 2021, when it’s noted that Ms B had been made redundant from her job, a call note reflects that: “we informed the customer that we have deferment option currently where the customer can defer paying her premiums by 3 months but would need to make them up over the following 6 months...this may be a short-term solution to help the customer...”

At that time, Ms B didn’t want to take up that offer. However, I’m satisfied that a similar option could’ve been offered to Ms B in early 2023 when she notified Zurich of issues with her temporary role. And if it had been, I think it’s likely that Ms B would’ve accepted this option or something similar due to her circumstances at the time.

I don’t know why the option of a three-month deferment was offered in 2021 – it may possibly have related to the covid-19 pandemic. But I see no reason why something like this couldn’t have been offered in 2023 and that seems to be in line with section 4.9 of the FCA guidance.

Zurich has also provided its guidance around what to do if customers are experiencing financial hardship. It says it will “always support our customers wherever we can...” and that short term options are available “to alleviate immediate financial hardship or offer a stop gap pending an improvement in financial sustainability, an example might be someone currently out of work but who will be returning to employment imminently”.

Zurich’s guidance also includes options to possibly reduce the monthly premiums, including decreasing the sum insured. It doesn’t look like any of these options were discussed with Ms B. She may not have wanted to pursue these options, but it does suggest to me that Zurich didn’t try to understand Ms B’s personal situation and explore meaningful ways to support her at the time – as it reasonably should’ve in the circumstances of this case and based on the information Ms B shared with it.

I’ve taken into account that there were previous occasions when Ms B had missed monthly payments – including a time in 2021 – when the policy was cancelled for this reason and subsequently reinstated by Zurich. However, I’m looking at the action taken in April 2023. And although Zurich had been supportive previously, I think it reasonably ought to have treated Ms B more fairly than it did in early 2023 when she was having difficulties making regular payments.

Distress and inconvenience

Looking at the correspondence Ms B has sent Zurich since it cancelled the policy, I’m satisfied that Zurich’s actions have caused her significant and unnecessary upset. She’s also spent considerable time trying to rectify this issue.

I think Zurich has unnecessarily confused matters by initially saying that Ms B didn’t make any payments after February 2023 when Ms B did – although it was 54p short of the premium amount due. So, Ms B has been put to the trouble of having to write to Zurich a number of times. I can understand why Ms B feels let down given that she was already in a vulnerable financial situation at the time, and I’m satisfied Zurich hasn’t reasonably done

enough to assist her in early 2023 before cancelling the policy.

I'm also satisfied that Ms B has had the worry of no life cover being in place for her beneficiaries should she have died.

I'm currently satisfied that £350 compensation reflects the impact Zurich's errors had on Ms B.

Other matters

Ms B has said that Zurich should refund her all premiums paid for the policy. Zurich was on risk of a successful claim being made whilst the policy was in place, so I don't think that would be fair and reasonable for me to direct Zurich to do this.

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I invited the parties to provide any further information in response to my provisional decision. Ms B replied explaining why she feels Zurich should pay compensation to her for the hardship she's endured since the decision was taken to cancel the policy but ultimately she agreed with the provisional decision. She said she'd like the policy to be reinstated.

Zurich also replied saying it was disappointed with my provisional decision. In summary it said:

- It had historically been flexible in facilitating Ms B to maintain the policy.
- Zurich isn't authorised to provide advice and is therefore unable to assess the affordability of the policy as a precursor to reinstatement of the policy.
- There's a genuine risk premium payment will default again in the future.
- Reinstatement requirements have always been back payment of all outstanding premiums, completion of declaration of health and a valid direct debit instruction.

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 uphold Ms B's complaint. The further points raised in response to my provisional decision haven't changed my mind. I'll explain why.

As I explained in my provisional decision, there were previous occasions when Ms B had missed monthly payments and Zurich had been supportive, I think it reasonably ought to have treated Ms B more fairly than it did in early 2023 when she was having difficulties making regular payments.

Should the policy be reinstated, I think it would be fair and reasonable for Zurich to agree a repayment plan with Ms B for her to pay the backdated premiums to Zurich. That doesn't require it to carry out an affordability assessment or provide advice in this respect.

If Ms B does default on two consecutive monthly premiums going forward, and Zurich, relying on the policy terms, seeks to end the policy, it would still need to act fairly and reasonably when doing so.

As I don't think Zurich acted fairly and reasonably when ending the policy in April 2023, I don't think it would be fair and reasonable for Ms B to have to make further health and

lifestyle declarations. If the policy is reinstated, it should be treated as not having ended in April 2023.

For these reasons and for reasons set out in my provisional decision (an extract of which is set out above and forms part of my final decision), I uphold this complaint.

Putting things right

On the basis that Ms B agrees to pay Zurich all outstanding monthly premiums (from February 2023 to date – taking into account the slightly underpaid premium in March 2023 and any other payments she's made and haven't been returned), I direct Zurich to reinstate the policy it cancelled.

Within 14 days from the date the Financial Ombudsman Service tells Zurich that Ms B accepts this final decision, it should contact Ms B directly to confirm that she wants the policy reinstated.

If she still does, Ms B should start paying the monthly premium due for the policy on the date each payment is due.

At the same time, Zurich should also agree a reasonable repayment plan with Ms B to enable her to repay the backdated premiums she owes for the policy to be reinstated.

I also direct Zurich to pay Ms B £350 compensation for distress and inconvenience. It's a matter for Ms B whether she would like to use all or some of this compensation to partially offset the premiums she owes Zurich for the policy to be reinstated.

My final decision

I uphold this complaint and direct Zurich Assurance Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 6 September 2024.

David Curtis-Johnson
Ombudsman