

The complaint

Mrs T and Mr T complain that Zurich Assurance Ltd provided misleading information when they requested a partial surrender of a whole of life policy, and that this left them with significantly reduced life cover than they were told they would retain.

What happened

In early June 2023, Mr T called Zurich to ask about surrendering the whole of life policy held jointly with Mrs T. During the telephone call Zurich provided Mrs T and Mr T with options of how they could surrender the policy and how they could partially surrender the policy and retain a level of life cover. Mrs T and Mr T chose to partially surrender the policy and retain life cover of £100,000 for a premium of £113.21. Zurich provided a written quotation and a partial surrender form to Mrs T and Mr T. When Zurich received the completed surrender form it issued the proceeds of the partial surrender on 16 June.

In August, Zurich wrote to Mrs T and Mr T to say that it wasn't able to offer the £100,000 life cover at £113.21 after the partial surrender. Zurich provided an alternative quotation of £48,719 life cover for a monthly premium of £113.21. Mrs T and Mr T complained to Zurich that they'd made their decision to partially surrender the policy based on the information it had provided in early June. Zurich said that when Mrs T and Mr T called to discuss the surrender option in early June, they should have been told that it would be best to complete the partial surrender first. Zurich said the reduction quote takes into account the fund value of the plan one month prior to the effective date of the quote – and that this meant the quote figures were incorrect. Zurich said it would provide feedback to its staff in this regard and offered to pay Mrs T and Mr T the sum of £100 to recognise the delays in dealing with their concerns.

Mrs T and Mr T rejected this offer. Zurich then told Mrs T and Mr T that if they returned the partial surrender amount it could provide quotations for a lower sum assured and monthly premium as required. Zurich added that the figures may not necessarily be the same as what it provided in June. Zurich offered Mrs T and Mr T £250 to resolve the complaint.

Mrs T and Mr T rejected the new offer from Zurich and brought the complaint to the Financial Ombudsman Service. One of our Investigators looked into things and thought on balance Mrs T and Mr T would have completed the partial withdrawal regardless of the remaining level of cover and premium. The Investigator thought that Zurich should pay Mrs T and Mr T £300 to resolve the complaint. Mrs T and Mr T asked that an Ombudsman decides the complaint and have provided further comments and evidence for me to consider. Zurich also asked for an Ombudsman to decide the complaint as it felt its offer of £250 to resolve the complaint was a fair and reasonable one.

As I reached a significantly different outcome to that of our Investigator, I decided to issue a provisional decision for Mrs T and Mr T and Zurich to consider. I said I would consider any more comments and evidence that I get by 30 September 2024. But unless the information changed my mind, my final decision was likely to be along the following lines:

“The crux of Mrs T and Mr T's complaint is that they relied on the information Zurich

provided in the telephone call of 2 June and the follow-up quotation. In the call Mr T first makes it clear to Zurich that he was exploring the surrender options for the policy. Zurich explained the options available as a partial surrender with a reduced amount of life cover or a full surrender which would mean the policy would end. Zurich explained to Mr T that he could take a partial withdrawal of £29,000 and retain £100,000 life cover at a premium of £113.21 per month. The full surrender value at this time was £29,831. In the call Zurich specifically said that to achieve this Mr T could reduce the life cover on his whole of life plan to £129,000 for a premium of £113.21 then make the partial withdrawal of £29,000 to leave £100,000 remaining life cover. Zurich accepts this is incorrect.

In considering this complaint, I can't say for certain what Mrs T and Mr T would have done but for Zurich's mistake. However, I can consider all the evidence and comments provided and decide what is most likely to have happened if Mrs T and Mr T had been in a position to make a fully informed decision at the time.

At the very least Zurich should have warned Mrs T and Mr T of the potential consequences the partial surrender would have on the remaining cover. In this case Zurich provided a misleading quotation to Mrs T and Mr T that led them to believe they would be able to retain £100,000 life cover at a cost of £113.00 per month after taking a £29,000 partial surrender.

This was confirmed verbally and in writing and Mrs T and Mr T seemed content with the level of life cover provided at the premium quoted. I intend saying Mrs T and Mr T believed they were making an informed decision based on this information being correct. Unfortunately, it took Zurich until two months after the partial surrender took place to write to Mrs T and Mr T to tell them it had made a mistake and that it could not provide the cover quoted.

Mrs T and Mr T have strong views that they wouldn't have proceeded on the basis they did if they had known at the outset the cost of the life cover after the partial surrender would increase by much more than they expected. In support of their view, Mrs T's and Mr T have provided illustrations obtained from another provider for life cover of £100,000 on a similar basis to the policy they hold with Zurich. These illustrations pre-date the 2 June telephone call with Zurich and I intend saying they add significant weight that Mrs T and Mr T were exploring all of the options available to them. One of the illustrations Mrs T and Mr T provided shows that for a premium of £117.38 they could obtain life cover of £100,000 with another provider.

So, after the 2 June telephone call Mrs T and Mr T believed they had the following options available to them;

- Go ahead with the partial surrender in the knowledge they would have £100,000 life cover at a premium of £113.21 per month; or*
- Fully surrender the policy and take out cover elsewhere.*

What Mrs T and Mr T didn't know at the time was that the option of taking a £29,000 partial surrender (only £800 or so below the full surrender value) and retaining life cover of £100,000 with Zurich for £113.21 per month wasn't actually an option. This option was one that Zurich accepts wasn't open to Mrs T and Mr T and that it had made a mistake in telling them it was. Mrs T and Mr T only decided to leave a value of approximately £800 within the policy after Zurich had said this was an option. Taking all of this into account, I intend saying that if Zurich had provided the correct information to Mrs T and Mr T before the partial surrender completed, it's more likely than not they would have taken the option to surrender the policy in full and replace the life cover with another provider. I've taken this into account when deciding what Zurich should do to put things right.

Putting things right

To resolve the complaint, I intend asking Zurich to re-structure Mrs T and Mr T's policy to provide life cover of £100,000 at a premium of £117.38. To be clear this is the option I intend saying Mrs T and Mr T would most likely have chosen – albeit this would have resulted in a full surrender and a policy with another provider. I also intend asking Zurich to pay Mrs T and Mr T the full surrender value of the policy (A) as it was on the date it calculated the partial surrender (B). Zurich should also pay 8% simple interest on the difference - if any – between (A) and (B) until the settlement date. This will give Mrs T and Mr T the life cover they would likely have taken out if they had fully surrendered the policy.

In respect of the premiums Mrs T and Mr T have paid since the partial surrender, I intend asking Zurich to refund these premiums less the premiums they would have paid if the £100,000 life cover at £117.38 per month was in place. Zurich should also pay 8% simple interest on each premium paid by Mrs T and Mr T until the settlement date. This takes into account the policy with Zurich continued with significantly higher premiums than what Mrs T and Mr T would have been paying if they'd taken cover with the other provider.

In summary, I believe the remedy I propose is a reasonable one as it reflects Mrs T and Mr T would more likely than not have fully surrendered the policy and then taken out £100,000 life cover at a premium of £117.38."

Mrs T and Mr T accepted my provisional decision.

Zurich asked me to provide further information about the illustrations Mrs T and Mr T had obtained from another provider. Once it had reviewed the illustrations Zurich responded to say that it couldn't re-structure the existing policy held by Mrs T and Mr T, but said it was able to fully surrender the policy, pay 8% simple interest on any difference, set up a new life cover plan for the monthly premium of £117.38 with a sum assured of £100,000 on a level basis, and pay the difference in premiums paid since the partial surrender and when the new plan starts. Zurich said that if Mrs T and Mr T wished to make any changes to the new plan at a future date then another plan will need to be applied for, and that will be subject to underwriting. Zurich said it would make a payment of £250 for the trouble and upset award.

This resolution is in line with what I intended to decide, but as it included a new policy to replace the fully surrendered policy and any further flexibility in terms of cover would be lost, I asked Mrs T and Mr T if they had any further comment before I made my decision. Mrs T and Mr T confirmed that the outcome which included a new, rather than a re-structured plan, is acceptable to them.

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'm satisfied that my provisional decision took into account all the relevant events that led to Mrs T and Mr T complaining. Although I thought it may be possible that Zurich could re-structure the existing policy, I'm persuaded it cannot do this because of system restraints it has. However, Mrs T and Mr T have agreed that a new plan is acceptable to them, rather than a re-structure of the existing plan. Zurich has said it can make a payment of the difference in premiums paid on the premiums since the date of partial surrender until the new plan starts and add interest together with the £250 trouble and upset award.

I have carefully considered whether I should issue a further provisional decision, but as the outcome is in line with the decision I intended to make, and both parties have indicated they

are accepting of a new plan being arranged, I've decided that I can issue a final decision on this matter.

My final decision

For the reasons provided above, I've decided that Zurich Assurance Ltd should take the following actions to resolve the complaint:

- Surrender the existing whole of life policy held by Mrs T and Mr T and pay them the full surrender value of the policy (A) as it was on the date it calculated the partial surrender (B) and pay 8% simple interest on the difference - if any – between (A) and (B);
- Pay the difference between the premiums paid on the existing policy since the date of the partial surrender and when the new plan starts plus interest at 8% simple;
- Pay Mrs T and Mr T £250.

Zurich Assurance Ltd should tell Mrs T and Mr T if it has made a deduction for income tax and, if so, how much it's taken off. Zurich Assurance Ltd should provide a tax deduction certificate for Mrs T and Mr T if asked to do so. This will allow Mrs T and Mr T to reclaim the tax from His Majesty's Revenue & Customs (HMRC) if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T and Mr T to accept or reject my decision before 19 November 2024.

Paul Lawton
Ombudsman