DRN-5176015

The complaint

Mr and Mrs W complain about a reviewable whole of life policy they hold with Zurich Assurance Ltd. They're unhappy with the outcome of a policy review held in 2022 which meant that the premiums needed to increase significantly in order to maintain the sum assured.

What happened

Mr and Mrs W have held their policy since the early 1990s. It initially provided a sum assured of £128,000 for monthly premiums of £130.33. It was subject to annual indexation up until 2016 and by the time of the 2022 review, the sum assured and premiums had increased to £303,675 and £425.37 respectively.

The outcome of the 2022 review was that in order to maintain the sum assured, the premiums needed to increase to £651.96. If the premiums weren't increased, then the sum assured would fall to £267,313.

Mr and Mrs W complained to Zurich about the outcome of the review. They said, in summary, that they'd been told in 2017 that the sum assured and premiums had been frozen, therefore the options they'd been given were unacceptable. They thought that if they had been allowed to continue with the annual indexation option, then the large changes needed because of the review wouldn't have been necessary.

Zurich looked into the concerns raised, but didn't uphold the complaint. They explained that they periodically reassessed the assumptions they made when performing reviews. Their 2019 review of claim likelihood factors had shown that the number of claims had increased, this meant that the cost of providing life cover was higher than they'd expected. This had impacted the 2022 review of Mr and Mrs W's policy and because investment performance had also been below expectations, premiums needed to increase to put the policy back on track to provide a sum assured of £303,675.

Mr and Mrs W didn't accept Zurich's findings and asked for our help with the matter. The complaint was considered by one of our investigators who didn't think it should be upheld. She thought it was reasonable for Zurich to have removed the policy's indexation option as they'd received returned mail for Mr and Mrs W. It was their policy to remove indexation if no address was held for a policyholder and from what the investigator had seen, Zurich had unsuccessfully attempted to trace their new address.

She also didn't think the outcome of the review was unfair. She acknowledged that the proposed increase in the policy's premiums was significant. But she didn't think Zurich were acting inappropriately as the increase in premiums was due to several factors, including revised mortality and investment growth rates, and also the increased cost of providing life cover as Mr and Mrs W got older.

Mr and Mrs W didn't agree and explained that in their opinion, the key issue was the cancellation of indexation because of Zurich not holding an address for them. They said that this shouldn't have happened as they'd been receiving mail from the overseas address that

Zurich held for them up until the point they moved in 2017. They also pointed to a letter they'd received from Zurich on 15 May 2017 which prompted their call to Zurich two days later. It was at this point they learned that the indexation option had been cancelled. They questioned why Zurich would have sent them this letter if it was against their policy to do so.

The investigator asked Zurich to explain why the letter was sent, but they were unable to provide an explanation and thought it may have been sent out in error. The investigator then revised her opinion on the complaint. Whilst she still remained of the opinion that the outcome of the review wasn't unreasonable, she thought that Mr and Mrs W had been caused distress and inconvenience by Zurich's actions, so they should pay compensation of £200.

Mr and Mrs W didn't accept the investigator's findings. They remained of the opinion that the outcome of the review would have been different if the policy had kept the indexation option. They also reiterated that they'd been told by Zurich in 2017 that the premiums and sum assured wouldn't change.

As there's been no agreement, the complaint was passed to me to review.

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 this complaint should be upheld and I will now explain why. I will firstly address the issue at the heart of this complaint – the cancellation of the policy's indexation option. Zurich have explained that their policy is to remove this option if they don't have a valid address for the policyholder.

I can understand why they would have this policy in place. Automatic indexation on a policy would result in premiums increasing each year. If a firm were to increase a policyholder's premiums without notifying them, it may lead to a scenario where that increase in premiums is unaffordable for the policyholder and may lead to a poor outcome such as putting the policyholder into financial difficulty or the policy lapsing because the premiums aren't being maintained. Taking this into account, I don't think Zurich's policy was unfair or unreasonable.

Zurich have said they received returned mail from the overseas address they held on file for Mr and Mrs W. They've explained that they made three attempts to trace Mr and Mrs W's address, but were unsuccessful which led to a gone away marker being placed on Mr and Mrs W's file. This then led to the cancellation of the indexation option in July 2016. For the reasons I previously gave, I don't think this was unreasonable.

Mr and Mrs W have said that there was no reason why Zurich would have received returned mail from their address. I fully accept what they've said, but mail could have been returned in error for any number of reasons. I don't think the available evidence supports a finding that Zurich acted incorrectly when they applied the gone away marker. I also think they took reasonable steps to then try and trace Mr and Mrs W's address which was ultimately unsuccessful.

However, Zurich then didn't follow their stated process as they sent a letter to Mr and Mrs W in error on 15 May 2017. It was this letter than prompted Mr and Mrs W to contact Zurich and during the subsequent conversations they had, their address was updated. I will address what I think Zurich need to do to compensate Mr and Mrs W for this error later on in my decision.

Moving on to the issues raised around the outcome of the 2022 review, I appreciate that Mr and Mrs W think that if indexation had remained active on their policy, then the outcome of the review would have been different. However, I don't think that would be the case. The changes that were required in 2022 came about because of a few different factors. The main ones being Zurich's revision to their assumptions around mortality rates and investment growth. I will explain how this impacted the 2022 review, but it may be helpful if I firstly set out how reviewable whole of life policies work in practice.

The premiums that are paid are generally used to purchase units in an investment fund. Units in the fund are then sold to cover charges on the policy such as the cost of providing cover and administration fees. At the outset, when charges are relatively low, the difference between the premiums being paid and the charges results in an investment pot being built up. As the life assured gets older, the cost of providing cover increases and can potentially exceed the premiums being paid in, but this can be offset by using the accrued funds, or the return from the investment pot.

Businesses will undertake reviews to ensure that the policy can continue to provide the chosen level of cover. They will look at a number of different factors such as the size of the investment pot, current mortality rates and investment performance. If they decide the policy isn't sustainable at its current premium, the consumer will usually be offered the option of reducing the sum assured or increasing the premium.

So, prior to the 2022 reviews, Zurich's assumptions had been that Mr and Mrs W's investment pot would grow at a faster rate and there was a lower chance of them passing away early. They subsequently revised their assumptions about both of these factors. The impact of this was that it would cost more each month to provide the level of cover that Mr and Mrs W's policy offered. Therefore the policy's premiums needed to increase to meet this cost, or the sum assured needed to reduce to a level that could be supported by the existing premiums.

It isn't the case that if indexation had still been active then these changes wouldn't have been required. This is because indexation increases both the premiums and the sum assured. These increases would have been based on Zurich's previous assumptions about investment growth and mortality rates. When they revised their assumptions, then changes would still have been required, potentially even more significant than what Mr and Mrs W saw in their 2022 review. This is because their policy would have had a higher sum assured than it did at the 2022 review, so the corresponding increase in premium or fall in sum assured would have been greater than what Mr and Mrs W were told in 2022, in order to fall in line with Zurich's new assumptions and provide cover going forward.

I don't think it was unreasonable for Zurich to revise their assumptions. I say this because they had a requirement under the regulator's rules to take proper account of fund performance and policy values in a way that ensured they treated their customers fairly and proportionately. In practice this meant they had to review their investment performance and charges regularly and ensure their assumptions accurately reflected the level of performance they were seeing.

The revised assumptions clearly had a negative impact on Mr and Mrs W's policy. But I don't think Zurich acted unfairly in revising their assumptions to a more accurate level as it meant that consumers were being provided with a more accurate level of information than they were previously receiving.

It's also important to note that Zurich's assumptions were based on the policy lasting for the rest of Mr and Mrs W's lives. So, while I appreciate Mr and Mrs W's concerns that they now don't know if the policy will face further changes in the future, if Zurich's assumptions are borne out, then the policy won't need any changes. It may even be the case that if investment growth is better than Zurich have expected, Mr and Mrs W may be offered the option of increasing the policy's sum assured for no corresponding increase in premium as they did at the 2002 policy review.

Taking all this into account, I don't think Zurich treated Mr and Mrs W unfairly when they reviewed the policy in 2022 and proposed the changes that they did.

I also appreciate that Mr and Mrs W think they were told that the policy's premiums and sum assured would be frozen. I don't have any records of the call due to the passage of time, but the call notes say that Mrs W was told that the indexation has stopped. I think what she was likely told was that the premiums and sum assured wouldn't increase in line with indexation going forward, but I don't think that she would have been given assurances that the policy wouldn't be subject to any further changes given that it was reviewable.

Zurich have accepted that they caused Mr and Mrs W inconvenience when their letter went out in error. I note that the investigator thought that £200 compensation was fair and reasonable, but from what I've seen, it appears that the letter was sent out because of human error and the matter was quickly resolved when Mr and Mrs W contacted Zurich a few days later to update their address. With this in mind, I'm satisfied that £100 is a more appropriate level of compensation in the circumstances. I note Mr and Mrs W's comments about the reduction in compensation, but I hope that they can understand my reasons for doing so.

So, in summary, while I appreciate Mr and Mrs W will be disappointed, I don't uphold their complaint about the outcome of the 2022 review. However, I think Zurich should pay them £100 in compensation for the inconvenience caused by a letter being sent out in error.

Putting things right

Zurich should pay Mr and Mrs W £100 in total compensation for the inconvenience caused by their letter being sent when it shouldn't have been.

My final decision

For the reasons I've given above, I partially uphold this complaint. Zurich Assurance Ltd should put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W and Mr W to accept or reject my decision before 14 January 2026.

Marc Purnell
Ombudsman