

The complaint

Mr L complains that Zurich Assurance Ltd failed to treat him fairly when he decided to transfer his pension to another provider. He says he wasn't notified in advance that the transferred funds were much lower than he'd previously been told it would be when his adviser first contacted Zurich for a transfer value.

What happened

In February 2025, Mr L's advice firm – Firm S - contacted Zurich to obtain a transfer value. A transfer value of £104,090 was given.

Mr L received advice from Firm S in March 2025 to transfer and consolidate his Zurich pension with another pension he held with Firm S. Mr L's objective in doing this was to use the consolidated funds to take the maximum tax-free cash for the purchase of property and then go into a drawdown pension. The suitability report issued by Firm S shows that Mr L required around £96,000 from his pensions for the property purchases. Based on the fund value of £280,622 for Mr L's existing Firm S pension and £104,090 for the Zurich pension, Firm S advised that Mr L would have enough tax-free cash (£70,155 from the Firm S pension and £26,022 from the Zurich pension to be transferred to Firm S) to meet Mr L's objective.

An application to transfer the Zurich pension in the sum of £104,090 was made by Firm S and on 9 April 2025 the transfer was completed. However, the amount transferred was £93,371 – so around £10,000 less than in Firm S's suitability letter.

On 11 April 2025, Firm S initiated the drawdown process for the existing Firm S pension and tax-free cash was sent immediately to Mr L. However, the amount of the tax-free cash from that pension was also lower than in Firm S' suitability letter.

It was at this time that Mr L discovered that the fund values for both pensions were lower than he'd expected and so he'd receive a lower amount of tax-free cash. He was told that this was because there had been a significant market dip at around the time of the transfer and the initiation of the drawdown pension and taking of tax-free cash (crystallisation).

On 23 April 2025 Mr L raised a complaint with Zurich about the fact that it had failed to alert him or Firm S to the difference in fund value before completing the transfer.

Zurich issued its final response on 20 May 2025. Zurich accepted that it should have, under its own protocols, contacted Firm S before the transfer given the reduced transfer amount. To remedy this, Zurich offered Mr L the opportunity to reinstate the pension if all the funds were returned within 28 days and £100 as an apology for the level of service he'd received. But Mr L didn't agree that this was adequate compensation.

Mr L then referred the complaint to our service. One of our investigators looked at the evidence and didn't think Zurich needed to do anything more. He said the fund values previously quoted by Zurich weren't guaranteed. And although Zurich should have notified

Mr L and Firm S about the lower fund value before the transfer, the offer to take back Mr L's pension and pay £100 compensation was fair.

Mr L then asked me to make a final decision. He said:

- The offer from Zurich to reinstate the pension wasn't adequate – he was simply being asked to return the lower fund value of £93,371 and this wouldn't put him in the position he should have been in with the higher fund value of £104,090.
- Zurich confirmed that it made a human error in not letting Firm S know of the lower fund value before the transfer. £100 wasn't fair compensation for this, especially as Firm S had compensated him for a similar mistake in relation to the existing Firm S pension value by paying much higher compensation and effectively increasing his fund value.

I then issued a provisional decision. I explained why I felt Zurich should compensate Mr L for investment losses as well as additional compensation for his distress and inconvenience.

After receiving further submissions from Zurich who said that the fund value was never guaranteed and that Mr L would not have delayed the transfer even if it had not made the error, I let the parties know that I was intending to still uphold the complaint but change the basis upon which the investment loss should be calculated. This was because I felt it was still fair to conclude that, but for Zurich's error, Mr L would have likely delayed the transfer, but he likely wouldn't have done so beyond 16 April 2025.

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.

There's no dispute that Zurich has made an error. Zurich should have notified Mr L/Firm S about the lower fund value before the transfer. So what I need to do is to assess the impact of that error.

Cases such as this are difficult as I can't be sure that even if Mr L/Firm S had been notified by Zurich of the lower fund value, the transfer wouldn't have still gone ahead when it did.

Zurich is right that the fund value wasn't guaranteed. But I remain of the view that Zurich's error meant that the choice of transferring the funds to Firm S from an informed position was taken away from Mr L and that Mr L would have delayed the transfer. This is, after all, exactly the situation that Zurich's transfer notification protocols were designed to avoid. And it's clear that the drop in value caused Mr L significant concern. So I still think it is more likely than not that he would have acted differently but for Zurich's error here.

In my provisional decision, I explained that Zurich's complaint response letter dated 20 May 2025 offered to reinstate the pension if Mr L returned the funds. But that wasn't a viable remedy at the time as he'd already crystallised the pension and tax-free cash had already been taken. And this wouldn't compensate Mr L for any investment loss in the period after the transfer to Firm S. So I didn't think Zurich's offer was fair way offer to resolve the dispute. I remain of that view.

I think a fair resolution involves me focussing on when I think Mr L would likely have processed the transfer had the error not been made in the first place rather than the steps either party could have later taken to rectify the error. As I've alluded to above, the latter is

problematic because once the pension was crystallised at Firm S, it would have been difficult (perhaps impossible) for the funds to be returned – and this was neither the fault of Zurich nor Mr L.

Having reviewed the evidence in Mr L's related complaint against Firm S, I think it's reasonable that, but for Zurich's error, Mr L would have delayed and then completed the transfer by around 16 April 2025. This is when he was looking to complete a related property purchase with the tax-free cash. I know that Mr L says that the property purchase could have been delayed – but I haven't seen compelling evidence that was the case. So I am of the view that a reasonable end date by which redress should be calculated is 16 April 2025.

I also think Zurich's error contributed to Mr L's distress and inconvenience at an important time in his retirement planning. I don't think the £100 offered by Zurich adequately reflects this.

So I set out below what I consider to be fair compensation in this complaint.

Fair compensation

To compensate Mr L fairly, Zurich must:

- Compare the performance of the funds transferred to Firm S with the notional value if it had remained with Zurich until the end date of 16 April 2025. If the actual value is greater than the notional value, no compensation is payable. If the notional value is greater than the actual value, there is a loss and compensation is payable.
- Zurich should also add any interest set out below to the compensation payable.
- If there is a loss, Zurich should pay into Mr L's pension plan to increase its value by the amount of the compensation and any interest. The amount paid should allow for the effect of charges and any available tax relief. Compensation should not be paid into the pension plan if it would conflict with any existing protection or allowance.
- If Zurich is unable to pay the compensation into Mr L's pension plan, it should pay that amount direct to him. But had it been possible to pay into the plan, it would have provided a taxable income. Therefore the compensation should be reduced to *notionally* allow for any income tax that would otherwise have been paid. This is an adjustment to ensure the compensation is a fair amount - it isn't a payment of tax to HMRC, so Mr L won't be able to reclaim any of the reduction after compensation is paid.
- The *notional* allowance should be calculated using Mr L's actual or expected marginal rate of tax at his selected retirement age.
- It's reasonable to assume that Mr L is likely to be a basic rate taxpayer at the selected retirement age, so the reduction would equal 20%. However, if Mr L would have been able to take a tax free lump sum, the reduction should be applied to 75% of the compensation, resulting in an overall reduction of 15%.
- If either Zurich or Mr L dispute that this is a reasonable assumption, they must let us know as soon as possible so that the assumption can be clarified and Mr L receives appropriate compensation. It won't be possible for us to amend this assumption once any final decision has been issued on the complaint.

- Pay Mr L £350 for distress caused by the loss of expectation and uncertainty about his pension.

Income tax may be payable on any interest paid. If Zurich deducts income tax from the interest, it should tell Mr L how much has been taken off. Zurich should give Mr L a tax deduction certificate in respect of interest if Mr L asks for one, so he can reclaim the tax on interest from HM Revenue & Customs if appropriate.

Portfolio name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
That part of the Firm S Pension Plan that is formed of the monies transferred from Zurich	Still exists and liquid	Notional value from Zurich	Date of transfer (9 April 2025)	16 April 2025	8% simple on the loss (if there is one) from the end date to the date of my final decision

Actual value

This means the actual amount payable from the investment at the end date.

Notional Value

This is the value of Mr L's investment had it remained with Zurich until the end date.

Any additional sum paid into the Firm S Pension Plan should be added to the *notional value* calculation from the point in time when it was actually paid in.

Any withdrawal from the Firm S Pension Plan should be deducted from the notional value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there is a large number of regular payments, to keep calculations simpler, I'll accept if Zurich totals all those payments and deducts that figure at the end to determine the notional value instead of deducting periodically.

If Zurich is unable to calculate a notional value, Zurich will need to determine a fair value for Mr L's investment instead, using this benchmark: FTSE UK Private Investors Income Total Return Index. The adjustments above also apply to the calculation of a fair value using the benchmark, which is then used instead of the notional value in the calculation of compensation.

Zurich must pay the compensation within 28 calendar days of the date on which we tell it Mr L my final decision.

If Zurich fails to pay the compensation by this date, it should pay an additional 8% simple interest per year on the loss, for the period following the deadline to the date of settlement. Mr L should promptly reply to any requests by Zurich for authority documents it needs to carry out the calculation and this portion of the interest won't be payable for any period where delays are caused solely by Mr L.

Why is this remedy suitable?

I've chosen this method of compensation because:

- Mr L wanted Capital growth and was willing to accept some investment risk.
- If Zurich is unable to calculate a notional value, then I consider the measure below is appropriate.
- The FTSE UK Private Investors Income **Total Return** index (prior to 1 March 2017, the FTSE WMA Stock Market Income total return index) is made up of a range of indices with different asset classes, mainly UK equities and government bonds. It's a fair measure for someone who was prepared to take some risk to get a higher return.
- Although it is called income index, the mix and diversification provided within the index is close enough to allow me to use it as a reasonable measure of comparison given Mr L's circumstances and risk attitude.

My final decision

I uphold Mr L's complaint. Zurich Assurance Ltd should pay the amount calculated as set out above

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 19 March 2026.

Abdul Hafez
Ombudsman