

The complaint

Mrs S and Mr W are unhappy with the mortgage endowment policy they had with The Prudential Assurance Company Limited. They have said they were told the policy was suitable for them and they didn't receive an explanation of other the types of mortgage that were available. They believe they would have been financially better off with another type of mortgage.

What happened

In 1987 Mrs S and Mr W took out an endowment policy to protect and act as the repayment vehicle for their mortgage. The policy was a low start, with-profits endowment with a target value of £39,030 and a term of 25 years. The premium started at £33.50 per month and increased over the following five years to eventually end up at twice that figure.

The policy was assigned to the mortgage lender at the time and remained so until 2004. At that time Mrs S and Mr W requested the assignment be cancelled and they sold ('traded') the policy.

The application form from 1987 shows that Mrs S and Mr W were buying a property together. They were both employed and were in their early 20s. their joint income was in the region of £14,000 per year.

Prudential responded to the complaint in December 2019. It didn't uphold the complaint. it thought Mrs S and Mr W's circumstances indicated the policy was appropriate for them at the time of the sale. It acknowledged that as a low start option was chosen, the overall costs might have been higher than a repayment mortgage. However, they were aware of the costs at the time and could have cancelled if they'd been unhappy.

One of our investigators considered Mrs S and Mr W's complaint. She didn't recommend the complaint be upheld as she wasn't persuaded the policy was inappropriate for them in 1987.

Mrs S and Mr W didn't accept the investigator's view of their complaint and asked that it be referred to an ombudsman for 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.

When considering a complaint, I have to look at the situation at the time of the sale; I cannot apply hindsight when doing so.

In 1987 neither the investment or mortgage industries were regulated. As such, the suitability requirements that were introduced later didn't apply and a product only needed to be appropriate for the purpose it was taken for. I would also confirm that if advice was requested, even in 1987, it would have been for the adviser to discuss a consumer's needs and requirements, and then make a recommendation. It wouldn't be expected for all options

to be presented to a consumer and for the consumer to be asked to choose one of the options; that would negate the need for an adviser. So I wouldn't be able to uphold a complaint simply because Mrs S and Mr W weren't given a selection of options for how to repay their mortgage.

When Mrs S and Mr W approached the adviser from Prudential (in the estate agency), they asked for advice on the best way for them to buy the property they wanted. There is limited information from the time of the sale because there was no requirement for documentation to be kept at the time, but even if there had been, it would be unlikely for much to exist given it is over 30 years since the sale.

What we do know is that Mrs S and Mr W were sold a with-profits endowment policy and at the time, it would have been viewed as representing little risk. This was because similar policies had historically produced very good returns, often significantly in excess of their target values. Due to this, such policies were considered appropriate for all but those completely averse to taking a risk.

Looking at Mrs S and Mr W's circumstances at the time, I haven't seen anything that would indicate the policy wasn't appropriate for them. Given their ages the policy matured many years before their anticipated retirement ages. So, if there were a shortfall at maturity they had time to deal with it before their incomes dropped at retirement. The mortgage was within normal lending criteria at the time, which would again indicate there were no affordability issues. Whilst it was a low start policy, so the premium increased over the first few years, Mrs S and Mr W were aware of this at the time and as the premiums were paid until they sold the policy, it wouldn't appear there were any affordability issues.

Whilst I know that Mrs S and Mr W will be disappointed in my findings, I don't believe the evidence indicates Prudential did anything wrong in 1987 in recommending an endowment backed mortgage to them.

My final decision

My final decision is that I don't uphold this complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S and Mr W to accept or reject my decision before 12 October 2020.

Derry Baxter
Ombudsman