

The complaint

Mr and Mrs S complained about a mortgage endowment policy sold to them by The Prudential Assurance Company Limited (Prudential). They say the policy was sold before they had a mortgage and they would not have known whether the policy would be suitable. Mr and Mrs S are being represented by a CMC.

What happened

Mr and Mrs S received advice from Prudential in 1992. The adviser completed a fact find. It was recorded that:

- They were married with three children.
- Mr S was employed and earning £18,500 a year.
- A bank loan of £278 was recorded.
- Two life assurance policies were shown. One had a sum assured of £10,000 and was due to end in 2005. The other had a sum assured of £15,000 and had an end date in 2010.
- The advice given was to take out life cover and long-term savings. House purchase was mentioned but there was no immediate intention to buy. Another note indicates house purchase was not likely before 1993.
- A note was made that: "*client request CSV on current policy due to cash flow problems at their request*".
- Their needs were prioritised as 1. Life cover 2. Mortgage 3. Savings.

The policy started on 1 December 1992 for a term of 25 years with a sum assured of £15,150. The premium of £58.35 a month was paid throughout the term of the policy. Mr and Mrs S used the policy as a means to repay the mortgage they started in 1998. The policy matured on 1 December 2017 for a value of £34,894.85.

Mr and Mrs S complained to Prudential. They did not uphold the complaint. They said the policy was not sold to repay a mortgage and was suitable to meet Mr and Mrs S's savings needs.

Mr and Mrs S did not agree and referred the complaint to this service.

One of our investigators considered the complaint. He did not think the policy was sold as a means to repay a mortgage in the future. Mr and Mrs S did not agree and asked for the complaint to be referred to an ombudsman.

My review of the file

I reviewed the file and asked the investigator to contact Prudential. The investigator explained my view that the policy was not suitable to meet the savings need identified. It appeared Mr and Mrs S surrendered an existing policy. This was to deal with cash flow problems. In order to buy a house some savings would be required to pay for a deposit and other fees associated with house purchase. Recommending a plan before knowing what the mortgage would be also meant the policy was unlikely to be for the correct sum assured.

The investigator explained there were a number of reasons which taken together indicated to me the policy was intended to be used to repay a mortgage. The savings need identified was for a mortgage, perhaps in 1993, but actually not started until 1998. The term of the policy was 25 years, which I thought was significant. There was no savings need identified for 25 years' time, but 25 years was the standard term for a first-time mortgage. Mr and Mrs S subsequently used the policy for their mortgage, which indicated to me this was perhaps the reason for the policy being sold.

Prudential's response

Prudential did not agree. They maintained that the policy was suitable to meet the savings needs identified. The endowment was not arranged as a mortgage repayment vehicle and was not an unsuitable savings and life insurance contract.

House purchase was recorded on the fact find completed in 1992. However, there is no evidence to suggest that their representative informed Mr and Mrs S that the endowment savings plan recommended could or should be used for future mortgage repayment purposes. The endowment started was not a Low Cost Endowment arrangement, which is a product designed to keep costs low, with the potential of added bonuses with a view to reaching a 'Target Amount' sufficient to repay a mortgage.

Mr S was employed, and Mr and Mrs S appear to have been in rented accommodation provided to them by his employer. It is therefore somewhat surprising that *if* mortgage repayment had been discussed in detail, that a Low Cost Endowment was not proposed and a separate savings plan for the need identified.

The endowment sum assured on the plan arranged was £15,150 and was the amount guaranteed to be paid on maturity. The life cover provided was £35,000 and was not an unreasonable sum assured for a couple with three dependent children. Mrs S was recorded as a housewife, and therefore once the children had become financially independent, life cover was required to protect against the unfortunate event of the death of either life assured. Mr and Mrs S have recorded that they wanted long term savings, and 25 years would mean that the plan would mature when they would be age 58. This is not an unreasonable term, to correspond with potential retirement and possible reduction in income.

A term of 25 years is generally taken as the standard term for mortgage repayment, but it is not exclusive to mortgages. It can also be a term to correspond with potential retirement/loss of income. The questionnaire the clients provided via their CMC, suggests Mr S wanted to retire much earlier at age 40. They were 33 at the time the policy started and 39 when the mortgage commenced. Mr S is recorded as not being a member of any pension scheme.

Prudential were not involved with the arrangement of the mortgage in 1998. However, it appears that the lender was prepared to accept the endowment savings policy as security against the loan that was arranged. They were not involved with any advice that may have been given at that time, nor did they confirm that the policy would guarantee to repay any loan that was arranged. It is noted that the mortgage was for £32,000 and the endowment policy matured in excess of this. Therefore, it could have been used to repay the loan although it was not specifically arranged for this purpose.

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 reviewed all of the evidence, I think the advice to start the savings policy was not suitable for Mr and Mrs S. I am still of the view that the policy was not suitable to meet the savings need identified. It appears Mr and Mrs S surrendered an existing policy. This was to deal with cash flow problems. It had also been identified that Mr and Mrs S would require a mortgage in the future. In order to buy a house some savings would be required to pay for a deposit and other fees associated with house purchase. Recommending a plan before knowing what the mortgage would be also meant the policy was unlikely to be for the correct sum assured.

I still think there are several reasons which taken together indicate to me the policy was intended to be used to repay a mortgage. The savings need identified was for a mortgage, perhaps in 1993, even though it was not started until 1998. The term of the policy was 25 years, which I think is significant. There was no savings need identified for 25 years' time, but 25 years was the standard term for a first-time mortgage. Mr and Mrs S subsequently used the policy for their mortgage, which indicates to me this was perhaps the reason for the policy being sold.

I think the policy was unsuitable. Prudential should therefore calculate whether any loss has been suffered and pay compensation as set out below.

Putting things right

Prudential should pay Mr and Mrs S D minus E where:

- A. a refund of the premiums paid from the date the policy started to the date that the mortgage started;
- B. interest on the premiums paid before the mortgage started from the date of payment to the date of decision or earlier settlement;
- C. the loss identified by carrying out a loss calculation in accordance with the standard RU89 guidance using a nil surrender value and, for the hypothetical repayment mortgage, a mortgage term equal to the original term of the endowment (or Mr S's normal retirement if that was 60);
- D. =A+B+C;
- E. the maturity value of the policy at the maturity date.

If there is a loss, simple interest should be added to the loss from the maturity date of the policy to the date of settlement.

Interest is calculated at 8% simple per year [from 1 April 1993 and 15% per year simple before that date].

My final decision

I uphold the complaint. The Prudential Assurance Company Limited should calculate whether Mr and Mrs S have suffered a loss, as set out above. If there is a loss, Prudential should pay compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs S to accept or reject my decision before 9 March 2021.

Roy Milne
Ombudsman