DRN-2407473

The complaint

Mr S and Miss V ("the policyholders") complain that Prudential Assurance Company Limited mis-sold them a mortgage endowment policy.

What happened

In 1993, Prudential sold Mr S and Miss V a with profits mortgage endowment policy. It had a target of £62,000 and a term of 25 years. Miss V was later removed from the policy. It was assigned to Mr S only in 1996. And he surrendered the policy in 2007.

In early 2020, Mr S complained to Prudential (via a representative) that the endowment had been mis-sold. His main points were that it was too risky, and he should have been sold a repayment mortgage instead. But Prudential said the policy had been suitable. Unhappy with this response, Mr S and Miss V (still via a representative) referred the matter to our service. They were unhappy with how the policy had been described in the application – and they also mentioned concerns about the level of borrowing.

Prudential consented to us considering this case. Our investigator didn't think the policy had been mis-sold. He thought the policyholders could have taken the low risk the policy was reasonably expected to pose at the time of sale. Their representative disagreed, arguing that they should have been sold a repayment mortgage over a thirty-year term instead, given the overall level of borrowing and the risk involved. But our investigator still thought Prudential's advice had been suitable – and that the policyholders had likely been given enough information about their repayment options. So, I'm now making the final decision on how this complaint should be resolved.

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 agree that Prudential mis-sold this mortgage endowment policy. I'll explain why.

This was a low cost, with profits policy. At the time of sale, these were generally seen as low risk investments that would have been suitable for most people. It's not for me to "re-advise" the policyholders or substitute what I think would have been best for them in 1993 with the benefit of hindsight. The key question I've considered is – did the policy more likely pose a risk to the policyholders that they couldn't take or weren't suited to? That would be the case if they couldn't take *any* risk with repaying their mortgage. But I'd consider it suitable if they could and were willing to take a small risk, in exchange for the potential of generating an additional lump sum on top of repaying the mortgage at the end of the term. And the likely lower *monthly* costs of an interest-only mortgage compared to a repayment mortgage.

At the time of sale, the policyholders were engaged and buying their first home. The application form says that Mr S was a 24-year-old computer engineer earning £18,320 per year. And Miss V was a 23-year-old merchandiser earning £11,000 per year. Given that they both said they wanted to retire at 60, and that the term of the policy was 25 years, they would be expecting to be economically active – for several more years – when the term ended. These circumstances don't indicate that they couldn't have taken the small amount of risk this policy would have been seen to present at the time.

Although their representative has suggested that the policyholders wouldn't have understood all the detail of how the policy worked – I think they were aware that there was some risk involved. I can see, for example, that the application form mentions that the policy would have to achieve 7.5% growth per year to reach the target amount. And it indicates that other repayment options were discussed. I do take on board their point about the wording on the form. But overall, I don't think there's enough for me to say that the policyholders were given incorrect information that induced them into taking a policy they otherwise wouldn't have wanted. And I do think it reasonably comes across that there is some risk involved. So I can't safely conclude that they couldn't and weren't willing to accept any risk – as I'd need to do to uphold this complaint. I also think the life cover offered by this policy would have been suitable for the policyholders, given that the plan was being taken to help repay their joint lending.

I note that the representative has said that a repayment mortgage over a 30-year term should have been sold instead. But, as explained, I'm not looking at what may have been the *best* option for the policyholders. I'm looking at whether the recommendation was suitable. I've explained above why I don't think it was unsuitable to recommend a mortgage endowment rather than a repayment mortgage. Additionally, the application states that the policy had a *"25 year [policy term] and £62,000 [target amount] as this is the amount and term of the loan"*. This suggests Prudential was making a suitable recommendation to match their lending – which it didn't provide. And Mr S and Miss V stated in their application that they wished to pay off their mortgage early. This seems to contradict the assertion that they should have been recommended a longer term. I'd also point out that increasing the term would likely have been more expensive in the long-run – due to the additional interest the borrowing would incur.

The representative has also mentioned that they don't think the mortgage was affordable *"if we use 2.5 joint income".* This seems to me a distinct point to the complaint initially put to Prudential. But, to the extent that this point was included in the complaint form we sent Prudential when we took on this case, and as it's given us consent, I will say that I agree with our investigator that this point doesn't suggest the policy was mis-sold. Prudential wasn't the lender here. And the 2.5 measure the representative has mentioned wasn't a fixed rule or cap for how much banks could lend. What's affordable won't solely depend on salary and the overall amount of the lending – other factors (such as the loan term, interest rate, other debts, disposable income, etc.) will affect this. Even if we follow the representative's logic – the measure it's referred to was normally seen as a *likely* gauge of how much *banks* would be *willing* to lend in relation to salary. According to the information recorded on the application with Prudential, the policyholders' mortgage was £62,000 and their joint salaries came to around £29,320. This suggests the capital borrowing was less than 2.5 times their annual salary. So this point doesn't suggest that *Prudential's* advice was unsuitable.

I do understand why the policyholders have raised this complaint – I know there has been a lot of concern about these types of policies/mortgage set-ups. Although they'll no doubt be disappointed in the outcome, I'd reassure Mr S and Miss V that I've looked into the individual circumstances of their complaint when reaching my decision. Based on what I've seen, on balance of probability, I don't consider Prudential to have mis-sold this policy.

My final decision

For the reasons given above, my final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr S and Miss V to accept or reject my decision before 4 January 2021.

Rachel Loughlin
Ombudsman