

The complaint

Mrs G complains that a life assurance policy sold to her by The Prudential Assurance Company Limited (“Prudential”) wasn’t suitable for her needs.

What happened

Mrs G changed her mortgage in 1996. The change meant that she’d only have to pay the interest being charged against the money she owed, but when the mortgage came to an end in 2008 she’d still owe what had been borrowed.

After making that change to her mortgage, Mrs G took out her policy with Prudential. It was a whole-of-life policy, meaning that as long as Mrs G continued to meet the conditions of the policy, she’d be covered by it.

Mrs G paid for the policy monthly. That was set up to continue until 2034. After that, Mrs G wouldn’t have to pay anything more for the policy, which would continue until she died.

As this was life assurance, it was designed to only guarantee a payment when Mrs G died. It was set to pay at least £7,000 – called the “*sum assured*” – plus any extra value it had gained while it had been running. Prudential call this a “*with profits*” policy.

The policy allowed Mrs G to end it before she died. But if she did that, she’d only get the profits and bonuses the policy had built up. She wouldn’t get the £7,000 death benefit.

Mrs G paid towards the policy from 1996 until her complaint in 2020. In that time – in 2005 – she extended the term of her interest only mortgage, so that it would run to 2020.

In 2020, Mrs G’s mortgage provider told her they wanted the mortgage to be repaid, as per their agreement with her. Mrs G’s said she’d been expecting her policy from Prudential to be able to pay off what she owed. But it couldn’t – there wasn’t enough money from the bonuses and profits it had gained to do that.

Mrs G complained that she’d been mis-sold the policy. Prudential considered the complaint and agreed the policy wasn’t right for Mrs G. They said that a record from 1996 showed Mrs G had only really needed a death benefit of £2,000 – not £7,000. And they noted that the whole-of-life policy didn’t seem to fit with the mortgage.

Prudential offered to cancel the policy, refund what Mrs G had paid over the years, and pay an extra 8% simple interest on top of the refund. They also offered Mrs G £100 compensation for some delays contacting her during the complaint handling. In total, Prudential said this would amount to a payment of £10,280.39 to Mrs G.

Mrs G didn’t accept that offer, and instead came to us. Our investigator looked at the details of the case. He agreed the policy didn’t seem right for Mrs G’s needs at the time, but felt the offer from Prudential would put that right. But Mrs G still feels Prudential need to do more. She’s said she wants around £14,000, which is what she says the policy had been meant to pay when she set it up.

With no agreement to resolve this complaint, it's come to me for a formal decision.

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.

Although there's agreement that Mrs G's policy wasn't right for her, the issue here is what should be done to put that right. I've decided Prudential's offer is a reasonable remedy. I'll explain how I get to that decision, starting with a look at how exactly the policy missed the mark.

We unfortunately don't have a detailed explanation of what was said or agreed in 1996. Given the time that's passed, that's not too surprising. But it means I've had to infer what most probably happened, based on the limited information that I do have.

There're a few things that point to Mrs G wanting this policy to help her pay off her mortgage while she was still alive. The fact she took it out at around the same time she switched to an interest only mortgage suggests it was to be linked somehow to that mortgage. And the fact it was a "*with profits*" policy – which would gain some value over the years – suggests Mrs G may have been planning to use that value at some point.

But there are other things that suggest the policy wasn't planned to link up with the mortgage. The documents from 1996 – mainly a record of the answers Mrs G gave when asked about her finances – suggest Prudential were expecting the mortgage to be paid off by the sale of the property.

And some letters I've seen for the policy make a point that the only amount the policy guarantees is the £7,000 sum assured. And that was only guaranteed if Mrs G died. No guarantees seem to have been given that the policy would be able to cover the mortgage after a certain number of years.

Plus, Mrs G extended her mortgage in 2005, suggesting she knew she wouldn't have the funds to pay it off in 2008. If the policy had been intended to pay off the mortgage over the term it had in 1996, I'd have expected to see the complaint that it couldn't raised in the run up to 2008, when the mortgage had been due to end.

It seems to me that – more likely than not – Mrs G was expecting the policy to help her pay towards her mortgage, using the value the "*with profits*" side of it built up over the years. But I find it's unlikely Prudential ever gave her a guarantee that the policy would pay off the whole mortgage. I've not seen that they did, and Mrs G didn't complain that it hadn't by the original end date of the mortgage.

In that sense, the policy is suitable for Mrs G. It does have a value separate to its death benefit, which Mrs G could call on when she needed it. But then I come to the issues Prudential have identified with the policy – its whole-of-life term, and the size of the sum assured.

The documents from 1996 identify Mrs G wanted some money – around £2,000 – to help pay for a funeral when she died. So setting her sum assured at £7,000 seems unreasonable. While it meant there'd be extra money for Mrs G's family after she died, it also meant she had to pay more per month for the policy.

It's possible the £7,000 figure was chosen to ensure the "*with profits*" part of the policy would build up quicker than if a lower premium was being paid. But if that was the aim, it's not

noted anywhere in the documents I've seen. And there were probably better ways to invest the money – rather than trying to manipulate this policy into doing that.

It's also possible the higher sum assured was to cover the mortgage if Mrs G died soon after the policy began. It wouldn't by that time have built up much value to help towards the mortgage, so the sum assured would pick up the shortfall. But again, there's nothing to confirm that thinking. And there were probably better ways to cover that eventuality – for example, a policy where the sum assured decreased over a set period.

So I conclude the policy wasn't right for Mrs G because she didn't need the sum assured to be as high as it was.

Putting things right

Prudential's offer would be ideal for a case where – if the service had been reasonable – Mrs G wouldn't have had the policy at all. But I've found it's likely she wanted something to help her pay towards her mortgage. And I accept that at the time she also wanted some sort of life cover, to help towards expenses after she died.

So I've looked at Prudential's offer as if it was a sort of investment. The inclusion of interest on the refunded premiums is where Mrs G gets a return. For the £5,790.96 she put in over the years, she'd receive £4,389.43 in profit, if she took the offer.

As far as resolving her complaint, I find that's a reasonable way to do it. It turns her policy in to an investment, which seems to be more in line with what she should have had. And – although she didn't use it – it recognises that Mrs G could have benefited from the life cover the policy gave her from 1996 to 2020.

I prefer that to Mrs G's suggested remedy of a figure closer to £14,000. I've not seen any documents that say the policy was going to give her that much, either in a claim under the life cover or through its bonuses over the years.

I've thought about whether there was some other policy or investment that Mrs G could have had in 1996 instead which would have given her a better return. But again, the lack of details from 1996 limit my ability to conclude in that way. It's not clear to me how much Mrs G would have been willing to invest, what risk she'd have accepted, and how she would have chosen to manage the risk the life assurance covered. And it's not clear if the overall outcome would be too different to what Prudential have already offered.

So I'm not going to go down that route here. It overcomplicates the situation, when I'm satisfied the offer Prudential have made is reasonable, and would probably still be a good offer even if I brought those sort of details into my reasoning.

As a couple of final points, I've noted Prudential offered £100 compensation for issues during their complaint handling. I'm not going to include that in my decision, as I don't have jurisdiction to try to remedy problems solely caused by complaint handling. But Mrs G is free to ask Prudential to honour that part of their offer, separately to my decision.

And I can see Prudential have applied a tax deduction to the interest they've offered. If Mrs G wants to try and claim that back, she should ask Prudential for a statement saying what's been paid, so that she can then pursue it with HMRC. Prudential should provide the statement, if it's asked for.

My final decision

I've decided to uphold Mrs G's complaint about The Prudential Assurance Company Limited. To put this matter right, they should refund what she's paid towards her life assurance policy, with simple interest at 8%. This will also see the policy cancelled.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 17 September 2021.

Paul Mellor
Ombudsman