

The complaint

Mr H's complaint is about the surrender of an endowment policy he held with The Prudential Assurance Company Limited. He is unhappy that the surrender value he received was significantly less than the amount he was given in a telephone call before he decided to surrender the policy.

What happened

Mr H has explained that in the summer of 2020 he and his wife wanted to complete some home improvements. They were looking into how to fund the works and asked Prudential how much their endowment policies were worth. Based on the values they were given, they decided they could afford the works and booked the builder to start the following month.

Mr H telephoned Prudential on 20 July 2020 and asked for a value for his policy and was told it was worth slightly under £34,000. He also asked about how to cash it in and if there were any penalties for doing so.

Prudential has confirmed that as the value of Mr H's policy needed to be manually calculated, he shouldn't have been given a value over the telephone. In addition, it's said that all correspondence about the policy value should have been manually amended. Unfortunately, the payment notice confirmation hadn't been, which meant the breakdown of the policy value contained in it had been wrong. Prudential has confirmed that while there was a warning on the policy records about this, that warning doesn't appear to have been noticed by its members of staff. In other words, the mistakes happened because of human error.

Three days after Mr H made his initial enquiries, he called Prudential again and confirmed that he wanted to surrender his policy. The relevant form was emailed to him the same day, which he completed and returned.

The surrender was processed, and Mr H was paid slightly over £22,000. He raised concerns about this, given the value he'd been given on 20 July 2020. He said that while he understood prices could vary, he considered the drop of over £11,000 was significant.

Prudential upheld Mr H's complaint. It apologised for the level of service he had received as he had been given the wrong policy value when he telephoned, and it paid him £1,000 for the distress and inconvenience he had been caused. However, it confirmed that the surrender value it had paid him was correct. It said that it would consider any loss Mr H had suffered in relation to the home improvements he had said he committed to, based on the incorrect value being quoted, and asked that any further evidence he wanted considered in this regard be provided within the following 60 days.

Further correspondence was exchanged, and Mr H provided Prudential with some further information. However, Prudential didn't consider that information enabled it to assess the financial impact its error had on Mr H. It repeated its requests for information regarding what had happened, when and the costs involved.

Mr H wasn't satisfied with Prudential's responses and asked us to consider his complaint. One of our investigators did so, but he didn't recommend that the complaint be upheld. He confirmed that Mr H been given incorrect information that misled him about the amount he would receive when surrendering the policy. However, he considered that Prudential had acted reasonably when the error had been pointed out, as it had given Mr H the opportunity to evidence any detriment he had suffered by relying on the incorrect information. The investigator also considered the compensation payment was an appropriate in the circumstances.

Mr H didn't accept the investigator's conclusions. He said that he was disappointed that the investigator felt the outcome was fair, as Prudential had not explained how the error occurred or provided satisfactory compensation. He reiterated that he had surrendered the policy in reliance of the information he'd been given about its value and would not have gone ahead with the home improvements had that error not occurred. He considered that Prudential should honour the valuation given, even if it had been given in error. He said that as Prudential had not paid out what he thinks it should, he had entered into a formal borrowing arrangement with relatives, by which he was incurring interest and having to make monthly payments from income. None of this would be happening if Prudential had paid out what it should have.

Mr H provided further information about the home improvements, the costs and how the shortfall in money had been funded. Another of our investigators reviewed the complaint in light of the new evidence supplied. He was also satisfied that the £1,000 payment was enough to compensate Mr H for the upset and inconvenience he suffered because of the error by Prudential. Having considered the information Mr H provided about the home improvements, the investigator wasn't persuaded that he had suffered a financial loss as it evidenced that Mr H had already committed to the building works before he had been given the incorrect information by Prudential. In addition, he was of the opinion that in borrowing the money from relatives, rather than as a further advance on the mortgage (as originally intended and how Mr H believes the works would have been funded if they had been delayed until 2021), had actually saved him money. This was because building society savings rates, which is the interest rate agreed with the relative, would have been considerably lower than mortgage interest rates.

Mr H didn't accept the investigator's conclusions. He reiterated that had he been told the correct surrender value of the policy, the home improvements wouldn't have gone ahead. This, he considered, was demonstrated by the fact that most of the deposit needed under the building contract wasn't paid until after information about the endowment policies had been received. He highlighted that in order to complete the works they had initially borrowed £13,000 from relatives and had later replaced this with a personal loan of £27,000, which had enabled all of the works to the property to be completed. Had Prudential paid out what it should have, he would only have had to borrow £16,000 and so he considered that it was clear that he'd suffered a financial loss.

Mr H also highlighted that in encashing the endowment, he had lost the life and critical illness cover it provided, which had been the main reason he'd kept the policy when he decided not to continue to use it for mortgage purposes. Mr H said that he'd received compensation for the distress and inconvenience caused by the error, but not the financial shortfall and have lost important protection benefits.

As agreement couldn't be reached, it was decided that the complaint should be referred to an ombudsman for consideration.

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.

Prudential has accepted that mistakes were made in dealing with Mr H's enquiries in 2020, so I don't need to assess that issue. I would also comment that when Prudential offered to consider if Mr H had suffered a financial loss due to its error, it was correct to do so. As such, what I need to consider is what redress, if any, should be paid to him.

I would initially explain that when assessing redress we don't place a consumer in the position they would have been in had the incorrect information been correct. Instead we place them, as far as possible, in the financial position they would have been in had the mistake not happened. This means that if a consumer relied on the information they were given to their detriment; we can compensate for that detriment.

In this case, Mr H has said that he and Mrs H wouldn't have had started the home improvements in 2020 had they not had all the money they needed. This is whether that was through borrowing on the mortgage or a combination of encashment of investments and borrowing on the mortgage in the form of drawing down overpayments.

However, the contract with the builder was drawn up in June 2020, several weeks before Mr H enquired about surrendering the policy. I highlight this as the usual process in such situations is that a quote will be given, but a contract wouldn't be drawn up until the customers had confirmed the works will be going ahead. Again, the initial, albeit small, payment towards the deposit was made before Prudential was approached. These facts would indicate that Mr and Mrs H had decided, before asking Prudential about the endowment surrender value, to have the home improvements done. As such, it doesn't appear that reliance was placed on the incorrect surrender value given when the decision to have the works done was made.

Of course it would have been upsetting and likely worrying when Mr H received less for his policy than he had expected. However, I am satisfied that he received the amount he was entitled to for the policy. I would also comment that Mr and Mrs H were initially intending to borrow all the money for the home improvements from their mortgage lender. Based on the information Mr H has given us, this would have totalled over £70,000. Whilst I understand the point Mr H has made about the loss of protection benefits the surrender has resulted in, the current position is that only £27,000 of borrowing was taken. Although the personal loan is likely to attract a higher rate of interest than borrowing on the mortgage would have cost, the fact that it is for a much smaller amount and may also be for a shorter period, would balance out the situation. As such, based on the information Mr H has provided, I am not persuaded that, even if I could find that he had relied on the incorrect surrender value when making his decisions, that he would have suffered a financial loss because of it.

Mr H was paid £1,000 by Prudential for the distress and inconvenience its mistake caused him. This is a substantial sum of compensation and having considered the circumstances, I think it is adequate to compensate for the loss of expectation Mr H suffered and the inconvenience of having to source alternative funding for some of the home improvements.

My final decision

My decision is that I don't uphold this complaint. Under the rules of the Financial Ombudsman Service, I am required to ask Mr H to accept or reject my decision before 11 February 2022.

Derry Baxter
Ombudsman