

## **The complaint**

Mr and Mrs M complain that they were sold insufficient life assurance by an adviser from Lloyds Bank PLC.

## **What happened**

In January 2005, Mr and Mrs M took out life assurance through Lloyds, after they had recently sought new mortgage lending. The adviser recorded that they were taking out a £30,000 capital repayment mortgage and a £50,000 bridging loan. The cover recommended was split across three policies – two life assurance policies for the mortgage debt and £54,600 of level life and critical illness cover for Mr M until his anticipated retirement age. This was varied to £50,000 and the critical illness cover was removed for cost reasons.

In 2020, Mr and Mrs M complained to Lloyds after querying the value of their policies. They said their mortgage was £132,952 on an interest only basis. And they'd never had a bridging loan.

A number of phone calls took place between the parties in January 2021. Mr and Mrs M explained how they had only recently become aware that they were sold cover which was not sufficient to provide full protection for their mortgage liability.

In the intervening years since the sale, Mr and Mrs M had made a capital repayment on their mortgage. And they said that Lloyds had failed to review their protection needs when it should have done. By January 2021, their remaining mortgage debt was just over £39,800.

Lloyds partially upheld the complaint. It said it agreed that Mr and Mrs M should not have been sold the mortgage protection policies as they were set out – instead they should have been recommended one joint level term assurance policy for the full mortgage debt.

However, it felt the sale of the other policy was appropriate as this had been set out as providing wider lifestyle protection for Mr M.

In terms of redress for Mr and Mrs M, Lloyds noted they had four years and one month left on their mortgage, which had a value of £39,803. However, their protection policies had sums assured of £12,200 and £20,666 leaving a shortfall in their insurance. So, it said if Mr and Mrs M took out appropriate cover, it would look to reimburse any difference in the cost of cover for the remaining term once it had seen evidence of the new policy.

Mr and Mrs M remained unhappy and referred their complaint to this service. Mr M explained that they had sought appropriate insurance elsewhere as they did not want to take up the offer Lloyds had made to put matters right.

The complaint was reviewed by one of our investigators. He agreed with both Lloyds and Mr and Mrs M that the two decreasing term policies had not been suitable for their needs.

In respect of the level term policy, it seemed some confusion had arisen about a possible bridging loan, which had never been set up according to Mr and Mrs M. Either way, he felt

this recommendation wasn't suitable as it did not provide protection for the full mortgage.

He did not think compensation was due to Mr and Mrs M – because if they'd taken out a policy with the correct sum assured, their premiums would have been more than £15 more each month. However, he did believe Lloyds ought to pay them £150 for the upset they'd suffered when they realised they were under-insured.

Lloyds questioned our investigator's reasoning on the compensation payment. It said Mr and Mrs M had not been financially disadvantaged, nor had they suffered stress as a result of not being able to pursue a claim – which would have been put right in any event as it had agreed to the mis-sale in part. It also did not think that a compensation payment for upset was warranted just because Mr and Mrs M had to complain.

Our investigator said he felt that a payment was appropriate in the circumstances of this complaint, because Mr and Mrs M had been concerned and upset when they discovered they did not have the cover they expected. Further, they'd had the inconvenience of acquiring new term assurance.

Lloyds then confirmed it was prepared to accept the investigator's recommendation. However, Mr and Mrs M disagreed. They said, in summary:

- they wanted the matter to be referred to an ombudsman;
- they also wanted to make a second complaint about Lloyds' actions at the time they made a substantial capital repayment to their mortgage;
- Lloyds has admitted that there has been mis-selling;
- they can't understand why Lloyds advised they need additional cover, if there wasn't any financial disadvantage to them;
- how was Lloyds able to ascertain the cost of cover that should have been sold at £132,000 without medical disclosures?;
- they only needed one policy, and Lloyds sold them three – this is clearly inappropriate.

Lloyds said it had nothing else to add.

### **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.

I'd like to thank the parties for their patience whilst this matter awaited an ombudsman's decision.

I understand our investigator has already assisted Mr and Mrs M in respect of their query about a second complaint, so I won't be looking at that further here.

Having looked at everything before me, I also believe this complaint should be upheld, on the basis suggested by our investigator. I'll set my reasons out for that below.

Many of the facts in this complaint are now agreed upon by the parties in terms of Lloyds accepting that it ought to have done something differently in 2005.

Mr M has provided the relevant mortgage documentation from 10 January 2005 relating to the mortgage offer, which did go ahead. It confirms that he and Mrs M did indeed begin a twenty-year interest only mortgage of £132,952. They also did not take out the bridging loan

though discussions were had about an upcoming property sale, which appears to have caused the confusing reference to bridging finance in the documentation.

Both parties recognise that given Mr and Mrs M were taking out mortgage lending, it was prudent for them to have protection for the debt in the event one of them may pass away. The proposed policies did not meet that need. And the additional policy was said to accord with Mr M's need for lifestyle protection, but there was no evidence of that requirement being established in 2005.

I therefore agree that while there was a clear requirement for life assurance cover, the proposed recommendation did not meet that need. As Lloyds has identified, Mr and Mrs M should have been recommended one joint level term assurance policy for a term and sum matching their mortgage lending from the outset. There was no requirement for other cover.

### **Putting things right**

When considering policies of this type which may have been mis-sold as unsuitable, our normal remedy is for complainants to receive a refund of the difference between the total monthly premium they've paid for their separate policies and the amount they would have paid for an equivalent joint-life policy.

However, in this complaint Mr and Mrs M were also sold cover at an insufficient sum assured which they paid less for (£57.65 for the total policies) than the premium should have been (£73.08) if the sum assured, term and type of cover had been correct.

I know Mr M has questioned how Lloyds could ascertain this, but it is able to do so based on the information they disclosed in 2005; it can calculate the cost of insuring them at the correct sum assured because it had enough information provided at the time of the sale.

Even though Mr and Mrs M have taken out further cover now for their remaining mortgage debt, they are not at any financial detriment. It is of course thankful that they have not had cause to make a claim, but this service doesn't order businesses to undertake hypothetical redress calculations; what we ascertain is what ought to have happened at the time of the advice. Where something different should have happened (as is the case here) if any financial loss which flows from that, we will direct the business to put right that loss.

Like our investigator, I also believe that there should be compensation awarded to Mr and Mrs M. They've explained how it was upsetting for them to discover they did not have appropriate life assurance cover, and it is that impact which we consider when deciding to make awards for compensation based on the consequences of a business' mistake. I find that a payment of £150 is a reasonable proposal for the upset Mr M has explained and noting that the issue took effort by him and Mrs M to resolve - by having to seek new cover.

### **My final decision**

I uphold this complaint. Lloyds Bank PLC must pay Mr and Mrs M £150 for the upset and inconvenience they have suffered as a result of receiving advice which left them insufficiently insured.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M and Mr M to accept or reject my decision before 16 August 2022.

Jo Storey  
**Ombudsman**

