

The complaint

Mr and Mrs B complain that The Prudential Assurance Company Limited ('Prudential') ought to increase the maturity value of their mortgage endowment policy.

For ease of reference, I've referred to Mr and Mrs B as 'the complainants' in my decision.

What happened

The particulars of this complaint are well known to the parties, so I do not intend to detail them again here. Instead, I'll focus on the key points and reasoning behind my final decision. This is not a discourtesy to the complainants or Prudential; it just reflects the informal nature of our service.

The complainants held a mortgage endowment policy with Prudential, which was due to mature in September 2021. When this was first taken out, the target value was £45,000 in order to cover what would be left on the complainants' mortgage. However, Prudential ended up paying around five thousand pounds less than that. The complainants say this is unfair.

Prudential explained that the maturity value was based on the deduction of an outstanding loan, which meant the overall amount was reduced by the £10,417.73 that was owed upon the plan's maturity. So, instead of £50,656.97, the amount due was £40,239.24. Prudential acknowledged that there had been some incorrect information given by its staff, particularly regarding the amount to be paid. Still, the overall figure was correct in the end and Prudential also paid just over £255 in interest to reflect the delay in giving this to the complainants. It also awarded £250 in compensation to reflect the misinformation.

Upon bringing the matter to our service, one of our investigators considered the maturity value and awards of interest and compensation to be fair. The complainants disagree. They accept that the loan was payable but maintain that the approx. £50,000 figure is what they ought to have received as this already takes into account the repayment of the lending – which was reinforced by Prudential in previous conversations they had shared.

Our investigator was not persuaded that Prudential ought to pay more, so the case has been escalated to me to decide.

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 appreciate the submissions the complainants have made about how important this endowment policy settlement is to their financial position. I recognise that, as many did, they relied upon the maturity value completely covering what was left to pay on their mortgage.

It's common ground that the loan that was taken out in 2006 was still owed; the complainants accept that this needed to be repaid. Likewise, it's not in question that the maturity value of £50,656.97 that was delivered by the plan was as it should be for the policy. It follows that what's left for me to determine is two-fold; whether Prudential has miscalculated the maturity figure that the complainants actually received (by erroneously offsetting the loan against the final amount), and whether the awards of interest and compensation paid by Prudential are sufficient in the circumstances.

I turn first to the deduction of the loan amount. It's not uncommon for a loan to be taken out and to, in effect, run alongside the endowment policy. This is on the agreement that, upon a set date, the lending is to be repaid out of the proceeds of the maturity value. Everything in the complainants' policy suggest that this was the case here.

Having carefully considered the endowment documents, annual statements and the loan agreement, I'm satisfied the £40,239.24 the complainants were paid duly takes account of the lending that needed to be repaid. I cannot see that Prudential has mistakenly subtracted the loan, or that the maturity value of £50,656.97 already takes into account it being repaid.

This is perhaps best explained in the annual statement Prudential issued in August 2021 (and may also have been included in prior statements/letter correspondence too). The outstanding amount at the time was presented, alongside a subsequent section labelled "You took a loan against your plan", whereby Prudential explained:

'When your plan matures, a claim is made or if it ends following non-payment of premiums, we'll take the full amount owed before paying the balance to you'.

In other words, the value at maturity, or the cash in value prior to then, would always need to be lessened by the policy loan before being paid to the complainants. Fortunately, the plan actually exceeded its target value, meaning that the final settlement in September 2021 was more than the amount needed to completely repay the complainants' mortgage. The nature of endowment policies is that the end value may fluctuate and can surpass the intended maturity figure, which would then be paid to the policy holder(s) in cash.

However, as explained, for the complainants' endowment this sum always had to be reckoned against what was left of the loan, which the parties agree as being £10,417.73. As a consequence, even though the policy performed better than expected, it still did not permit the full amount needed to clear the associated mortgage. So, although this will come as a great disappointment to the complainants, it's my judgment that the quantum the complainants were paid by Prudential is correct. I do not find that the £40,239.24 ought to be increased.

Finally, I have reviewed the element of interest Prudential has paid, alongside the compensation it awarded to put right the wrong information it gave the complainants.

As a general principle, interest should be paid to make up for any period that a consumer has been unfairly deprived of funds owed. Here, Prudential worked out that it had unnecessarily delayed payment of the maturity value due to an error. It calculated the rate of interest at 8%, which produced the £255 (or so). This is in line with our service's approach, as a means to put right the deprivation of using said money – so I do not find that this sum is materially wrong, nor do I think it Prudential need to revisit this.

In terms of compensation, this is not an exact science. Undoubtedly, the complainants will argue that £250 does not resolve the position they now find themselves in. This is understandable, seen as they now face a mortgage balance of around £5,000 that they did not expect.

But as our investigator rightly explained, even though it's agreed that Prudential incorrectly advised them, this does not necessarily make it fair for this mistaken maturity value to be honoured for the complainants. I find it would be unfair to require Prudential to pay what it may have falsely told the complainants they would receive, when I've determined that this is not what ought to be given. In simpler terms, but for the incorrect information given, the complainants would still be in the position they are in now; that being, having a maturity value of the one paid. Accordingly, I've assessed the *impact* caused by the complainants being told by Prudential that they would receive more than what was owed.

When doing so, I've borne in mind correspondence sent to the complainants. As I've already explained, the annual statement I've seen makes it reasonably clear that the amount owed on the loan would be taken away from the fund value. So, I can safely conclude that at least during the month prior to maturity, the complainants were given the right details.

What's more, I've reviewed the contact history. This demonstrates that, back in 2020, Prudential recognised that it had misjudged things in terms of the settlement amount. This preceded the annual statement that I've referred to, meaning that the true state of affairs was explained to the complainants before August 2021. The contact records suggest that Prudential took steps to clarify the final value around a year before maturity. As such, it would seem that the impact was somewhat mitigated, in the sense that the complainants were given clarity before the end of the policy. And it is of course better customer service for a business to endeavour to put right a failing as soon as reasonably possible.

With this in mind, I'm satisfied the compensation Prudential has offered to be reasonable. Whilst I recognise that this does not resolve the financial plight the complainants face in regards to their mortgage, I find the redress to be in keeping with what I would have recommended in the circumstances. To that end, I do not require Prudential to take any further action beyond what it has already for this complaint.

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 B and Mrs B to accept or reject my decision before 27 December 2022.

Matthew Belcher
Ombudsman