

The complaint

Mr and Mrs R's complaint is about an error in the information they were provided with about their mortgage endowment policy with HSBC UK Bank Plc. They have said this error led them to surrender their policy early and give money to their children, which they wouldn't have otherwise done.

What happened

Mr and Mrs R arranged an endowment policy to protect and repay their mortgage of slightly over £51,000 in 1997. The policy had a term of 25 years and was due to mature in the summer of 2022.

From 2003 onward the annual updates HSBC sent to Mr and Mrs R told them that the policy was unlikely to reach its target value of c.£51,000. As such, Mr and Mrs R changed to a repayment mortgage and kept the endowment policy as an investment. They have told us that they planned to use the maturity value to help buy a holiday home.

In early 2021 Mr and Mrs R checked online what the value of the policy was. HSBC's internet banking system showed the policy as having a value of over £90,000. They decided to cash the policy in.

The surrender of the policy was processed, and HSBC paid them just over £45,000. This was the correct surrender value for the policy. Mr and Mrs R complained.

HSBC upheld Mr and Mrs R's complaint in part. It acknowledged that there had been an error in the internet banking system which showed the number of units and their value at double the actual position. It apologised for the error, however, confirmed that it had paid out the correct value of the policy when it was surrendered. HSBC highlighted that the review letters sent to Mr and Mrs R from 2003 had told them that the policy was highly unlikely to reach its target value of c.£51,000. The last of these had been sent less than six months before the policy was surrendered. HSBC offered Mr and Mrs R £250 compensation for its error.

Further correspondence was exchanged between HSBC and Mr and Mrs R. HSBC accepted that Mr and Mrs R may not have surrendered the policy when they did, had the error not occurred. It went on to explain that, given the fund the policy was primarily invested in at that point had a negative return when the charges were taken into account (which they had been told about), it was satisfied that Mr and Mrs R hadn't suffered a loss. It also said that if either Mr or Mrs R had died or suffered a critical illness before the maturity date, it would consider a claim under the cover that had been provided by the policy.

Mr and Mrs R weren't satisfied with HSBC's position and referred their complaint to this service. They told us that due to the amount they were expecting to receive from the endowment policy, they decided to give their children a share of the money. They gave each of their two children £5,000. They told us that had the value of the endowment not been what it was, they don't believe that they would have done this.

HSBC confirmed that if the policy had remained in force until maturity, Mr and Mrs R would have paid almost £2,000 in additional premiums to the policy. Charges for the management of the policy and the protection benefits would have continued to be deducted.

One of our investigators considered the complaint. He was persuaded that Mr and Mrs R had made the gifts to their children on reliance of the incorrect policy surrender value. As such, he asked HSBC to reimburse Mr and Mrs R this money. HSBC didn't agree. It highlighted that less than six months before the surrender it had told Mr and Mrs R that the policy wasn't even going to reach its target value of c.£51,000. The suggested maturity value was less than half a percent increase in value to that which Mr and Mrs R had been given the previous year. As such, HSBC thought they should have been aware that the c£90,000 valuation was a mistake. HSBC also highlighted that the payment made to the children was labelled as 'grandad' and was paid before the surrender value was received, which implied it was not related to the expected policy surrender value.

Mr and Mrs R were asked about the payments in light of HSBC's comments. They confirmed that they only paid the money to their children because of the amount of the expected surrender value from the endowment policy. They explained that they used a payment reference of 'grandad', from whom they had recently received an inheritance, in the hope that it would aid their children in their grieving process and encourage them to use the money responsibly.

Having considered the additional submissions from the parties, our investigator proposed to uphold the complaint in part. He concluded that the evidence suggested that Mr and Mrs R only surrendered the policy when they did because of HSBC's error. However, given the information available about the policy, he concluded that it was likely that they hadn't suffered a loss by surrendering when they did. The investigator confirmed that Mr and Mrs R had received the amount from the policy they were entitled to and he wouldn't be asking HSBC to pay the difference between that amount and the incorrectly quoted surrender value.

However, in relation to the payments Mr and Mrs R made to their children, the investigator was persuaded that more had been paid than otherwise would have been due to HSBC's error. He recommended that HSBC reimburse Mr and Mrs R £5,000, representing half of the amount paid to each child, plus interest for the loss of use of the money. In addition, he recommended that HSBC increase the compensation amount to £500.

Mr and Mrs R accepted the investigator's conclusions. They said that they had originally been intending to give their children £1,000 each from the inheritance, but they increased that to £5,000 based on the expected pay-out from the endowment policy. However, they accepted that it couldn't be proved what their intentions were, so they accepted the investigator's suggestion.

HSBC didn't accept the investigator's conclusions. It reiterated that it would have been reasonable for Mr and Mrs R to have known there was something wrong with the value contained on the internet. It also highlighted that it was Mr and Mrs R's decision to pay their children money from the inheritance.

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

I issued a provisional decision on 13 June 2022, which set out my conclusions and the reasons for reaching them. Below is an excerpt.

'It is not clear whether Mr and Mrs R checked the value of their policy via internet banking on a regular basis or whether they relied on the information HSBC sent them by post. However, they have said that the value they saw for the policy in early 2021 was unexpected. This would seem a reasonable reaction, given that they had been told for the previous 18 years that the policy was unlikely to even reach its target value of c£51,000. The £90,000 would also have been significantly higher than even the highest projected return that would have been illustrated before they took out the policy. So I can only conclude that Mr and Mrs R should reasonably have thought that the value they were seeing wasn't right. This is supported by the fact that they checked the value for a second time, to check it was still as high as it had been.

Mr and Mrs R understandably decided to surrender the policy at this point, as most would, as the value was significantly more than they'd been expecting from the policy. It is clear that there was a problem with HSBC's systems and Mr and Mrs R should receive some compensation for that. However, that would not be the difference between the actual surrender value and the incorrect figure they were given. This is because when awarding redress this service aims to place a complainant in the same position as they would have been in, but for the mistake that had been made.

In this case, had HSBC not provided an incorrect value, it seems unlikely that Mr and Mrs R would have surrendered their policy early. Had the policy remained in place, they would have paid almost £2,000 in additional premiums and, as the fund the policy was invested in had an effective negative growth when charges were taken into account, it is likely that they would have lost out overall. Mr and Mrs R may have potentially suffered a loss had one of them died or suffered from a critical illness between the surrender and the maturity date, but HSBC has already said that it would have considered any claims, given the circumstances. As such, I can't find that Mr and Mrs R suffered a financial loss due to the early surrender of the policy.

I now turn to the matter of whether Mr and Mrs R suffered detriment from relying on the incorrect information. Having read their comments about this matter, I have interpreted them slightly differently from our investigator. I am satisfied that Mr and Mrs R's comments contained in the complaint form and their email of 15 November 2021, in response to a query about the reference used on the transfers, say that they would not have made any payments to their children, but for the mistake by HSBC. While this changed following the investigator expressing his interpretation of their comments, we will typically rely on comments made without hindsight or influence when assessing a complaint.

As such, in order to make an award in this respect, I need to be satisfied that, Mr and Mrs R only made the payments to their children they did, because of the error by HSBC. I would also need to be satisfied that when they realised the error, they attempted to rectify the situation by attempting to retrieve the money, but they were unable to do so.

The only evidence on this issue is Mr and Mrs R's submissions, the timing of the payment and the reference used. So it is entirely down to whether I think it is more likely than not that no payments would have been made, but for the error in the surrender value. I say that it has to be more likely than not, as if it is only just as likely, I wouldn't be able to uphold this part of the complaint.

The date of the transfers doesn't correlate with either the surrender being requested or the surrender value being received. It was after the first event, but before the second. So there is no direct link within the timings between the two events.

The fact that the reference on the payments was 'grandad' would also indicate that the money was being passed on from the inheritance that had recently been received, rather

than the endowment surrender value. Given that it would not be unusual for inheritances to be shared in this way, this reference introduces the distinct possibility that these payments would always have been made, despite what Mr and Mrs R have said about the reference.

I have carefully considered the evidence, but I am not persuaded that it shows that it is more likely than not that the payments were only made because of the error on HSBC's part. So I don't uphold this part of the complaint and I don't consider that HSBC should make payment in this respect.

I now turn to the matter of compensation for the effect the mistake had on Mr and Mrs R. While I think that Mr and Mrs R would have suspected the surrender value they'd seen on their internet banking wasn't right, it would have raised their expectations about the amount they would be receiving. While these expectations weren't raised for any significant period, it would have been a considerable disappointment to receive only around half the amount they were hoping for. They have explained that the money from the policy was to go toward the purchase of a holiday home and the incorrect value led them to think they'd be able to progress their plans much earlier than previously believed. This would have added significantly to their disappointment. HSBC offered £250 for the administrative mistake and in many circumstances, I would agree that was enough. However, given the particular situation in this case, I agree with our investigator that the compensation for upset and inconvenience should be increased to £500.'

HSBC confirmed that it had received my provisional decision and it had no further comments to add.

Mr and Mrs R said that they didn't have any further information to add. They said that they would respect the outcome of our investigation.

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, and in the absence of any additional evidence or comment, my conclusions have remained the same.

My final decision

My decision is that I uphold this complaint in part. I require HSBC UK Bank Plc to pay Mr and Mrs R £500 compensation.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs R to accept or reject my decision before 28 July 2022.

Derry Baxter

Ombudsman