DRN-4609000

Financial Ombudsman Service

The complaint

Mr P and Ms T have complained that Lloyds Bank plc mis-sold them a life insurance policy when they took out their mortgage. They said they didn't know it had decreasing cover. And they're unhappy they continued to pay the premiums after the mortgage was paid off.

What happened

Mr P and Ms T took out a mortgage with a company in the Lloyds group in 2004. The mortgage had a 20 year term and was taken on a repayment basis. They also spoke to their adviser at Lloyds about what they could do to make sure the mortgage was paid off should one of them die.

After discussing their needs, the adviser suggested they buy life and critical illness cover. Mindful of their budget, Mr P and Ms T decided to buy life cover only. The term of the policy they bought matched the mortgage term.

In about 2018, Mr P and Ms T paid their mortgage off early.

In 2023, Ms T found she was still paying premiums for the policy Lloyds had sold her, even though she no longer had the mortgage it protected. So she complained to Lloyds that:

- she and Mr P weren't advised it was a decreasing policy and had no cash value;
- she and Mr P were told they had to take the policy out to protect their mortgage; and
- the policy wasn't cancelled when the mortgage was paid off – so she continued to pay premiums.

Ms T also complained that the policy provider had updated Mr P's address following their separation but hadn't told her they'd done that. And the policy provider hadn't sent her annual statements. Lloyds passed these complaints to the policy provider.

In relation to the complaints they were responsible for, Lloyds said the policy sold was suitable for Mr P's and Ms T's needs, they'd been given product literature which showed it was for a decreasing term and had no cash in value and that it wasn't a condition of the mortgage that they bought cover. And Lloyds said the policy was separate to the mortgage, with premiums collected separately – which is why they continued to be collected after the mortgage was paid off.

Mr P and Ms T weren't satisfied with Lloyds' response and brought their complaint to our service. Our investigator reviewed all the information received about the complaint and concluded Lloyds didn't need to do any more to resolve it. She was satisfied there was no evidence to suggest the policy was unsuitable for Mr P's and Ms T's needs, and that the documents were clear it had no cash value and was not a condition of the mortgage borrowing. And she said it wasn't Lloyds' responsibility to cancel the policy at the time the mortgage was paid off.

Mr P and Ms T didn't agree with our investigator's view and said it was unfair to pay for something they didn't need. I've now been asked to make a final 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.

Having done that, I'm not upholding Mr P's and Ms T's complaint. I'll explain why.

I've studied the information dating from when Mr P and Ms T took out their mortgage. That shows they discussed their needs with a Lloyds adviser.

I can see they selected a repayment mortgage – meaning that, over the term, they would pay off all the capital they borrowed and the interest that was charged. So, all being well, they would have no need of a product to help them repay what they borrowed.

But I can see from the "Personal Summary and Recommendations" document that Mr P and Ms T wanted to ensure that, if one of them died before the mortgage was fully paid, the survivor would not have to make repayments alone. I can see that a life policy, which would pay out on the first death, was suggested. Cover for critical illness was also recommended. But the document records this was not chosen.

I'm satisfied the policy Lloyds sold Mr P and Ms T was suitable for their needs as it would pay out in the situation they wanted to cover. I've seen that budget was a factor – so a policy with a decreasing term was a reasonable choice, as they cost less than policies which provided a fixed amount of cover. And the documentation records Ms T felt she had sufficient cover through her employer to deal with the other situations it was recommended she and Mr P think about.

I've seen the fact the policy decreased in value and provided no cash-in value is recorded in the Personal Summary and Recommendations document, the policy quotation, and the key features document, all of which were provided to Mr P and Ms T. So I'm satisfied Lloyds made them aware of this at the time.

Mr P and Ms T also complained they were told they had to take out the policy to get the mortgage. They've not been able to provide any evidence to show this was the case. But Lloyds have provided the confirmation they signed when they applied for the mortgage, which says:

"…On whatever basis your loan is arranged it is always advisable to consider your life assurance needs and we strongly recommend that you take advice from a financial adviser.

[Mortgage provider] *acts as an introducer only to the* [policy provider] *& Lloyds TSB Marketing Group…. If you have not received advice on life assurance from a financial consultant, and you would like to, we can provide details of how to contact a representative of the* [policy provider] *& Lloyds TSB Marketing Group, who can provide advice only on the life assurance, pensions and investment products of the Group. Remember, however, that taking out life assurance or an investment plan is* ***not*** *a condition of your* [mortgage provider] *mortgage."*

I'm satisfied this makes it clear that, while it's recommended customers should think about life insurance, they don't have to buy a policy. In the circumstances, I'm not persuaded that Mr P and Ms T did more than follow the recommendation to consider protecting their mortgage. And I can't say Lloyds did anything wrong here.

Finally, I've thought about the complaint that the policy continued after the mortgage was paid off.

It’s clear from the documents I’ve seen that the mortgage and life cover were separate products. Lloyds have said they were paid separately. So paying off the mortgage – and cancelling the payment arrangements for that – wouldn’t automatically have led to the life policy payments ending as well.

It’s reasonable to assume both payments would have been shown on Mr P’s and Ms T’s bank statement(s). So these would have shown they continued to pay for the life policy, even after they’d paid off their mortgage. Ms T told us she didn’t check the account from which payments were made regularly. But I don’t think that’s a reason to say Lloyds were at fault for not advising her the payments were continuing.

Nor do I think it’s fair to say that the life policy should automatically have been cancelled because the policy protected a mortgage which had been paid off. Even though the value of the cover was decreasing, it did have a value until the policy ended because, had Mr P or Ms T died after they’d paid off the mortgage but before the policy ended, the survivor could have received a payment. It was up to them whether they wanted the benefit of that cover to continue.

So I don’t think its fair to say the policy should have been cancelled just because the mortgage had been. And I don’t think Lloyds need to do any more to resolve Mr P’s and Ms T’s complaint.

My final decision

For the reasons I’ve explained, I’m not upholding Mr P’s and Ms T’s complaint about Lloyds Bank plc.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr P and Ms T to accept or reject my decision before 27 March 2024.

Helen Stacey
Ombudsman