Financial Ombudsman Service

complaint

Ms A complained that The Prudential Assurance Company Limited misled her about the consequences of stopping premium payments to an endowment policy.

background

Ms A took an endowment plan with Prudential in 1978 that was due to mature in 2018. In 2015 the premium payments changed, which required Ms A to complete a new payment instruction.

In November 2015 Ms A called Prudential to ask what the policy was and whether she needed to continue paying the premiums. Prudential explained that it was an endowment plan that included life assurance. The representative told her that she didn't need to continue with the premium payments but that the policy would forfeit if she stopped paying.

The policy forfeited in September 2016. Prudential wrote to Ms A detailing the value of the plan and that she needed to take the settlement. Ms A complained, saying she had been misled by Prudential. She said she'd wanted to leave the plan in place until maturity so that it reached its full value and she received a final bonus. She said Prudential didn't adequately explain what was meant by forfeiture – she thought it was only the life cover that was lost when she stopped paying the premiums.

Prudential agreed that its representative could've given Ms A a better explanation of what would happen if she stopped paying the premiums. It awarded £125 compensation. But, it said Ms A received several letters warning about the consequences of missing the premium payments before the policy forfeited. Ms A remained unhappy so she referred her complaint to this service.

Our investigator didn't uphold Ms A's complaint as she thought Prudential's offer was fair. So, she asked for a final decision.

I reviewed the complaint and made a recommendation with a view to resolving the complaint informally. I explained to both parties that I was inclined to uphold it. To put things right, I thought Prudential should reinstate the policy, subject to Ms A paying the premiums owed to date. If that wasn't possible I recommended Prudential should find out what the projected value of Ms A's endowment is at maturity and pay her the difference. I explained that I thought it would be reasonable for Prudential to deduct the premiums owed from any settlement.

Prudential didn't agree. It said Ms A was told on the phone that the plan would forfeit if she stopped paying the premiums. It also said the letters issued to her prior to the plan forfeiting clearly explained that the plan would end and benefits would be lost if she didn't pay the premiums owed. Prudential advised that the plan couldn't be reinstated and added that if Ms A was paid the difference now she'd be benefitting from monies a year earlier than she would've been. It also said the actual value of the plan will only be known at the time of maturity in October 2018.

Ms A agreed with my recommendation in principle. But she suggested that Prudential should waive the premiums she would owe to maturity instead of paying the £125 it had already offered her. As no agreement could be reached I've made a final decision.

my findings

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, I'm upholding this complaint.

From what I've seen, I think the issue at the centre of this complaint was that Ms A didn't understand what her policy was or how it worked. I think she understood it to be a life insurance policy which attracted a value at maturity, rather than an investment vehicle that also provided life insurance. As Ms A took the policy in 1978, it isn't surprising that she'd forgotten what the policy was for and no longer had the terms available to her.

I've listened to the call Ms A made in November 2015. She starts by saying that she thinks her plan is a life insurance policy but she isn't sure. The Prudential representative explains it's a type of endowment policy designed to pay a lump sum at maturity, with an element of life assurance.

Ms A asked if she needed to continue to pay the premiums. The representative confirmed that she didn't need to continue paying in to it, but it wouldn't gain much more value if she didn't. She said after 13 months, if it hadn't been paid into, the policy would sit there until its maturity date or until she decided to cash it in. This explanation wasn't right. As I understand it, if Ms A wasn't paying the premiums the value wouldn't increase. And if no payment was made for 13 months, the plan would lapse and the surrender value would have to be taken at that point. It couldn't be left until maturity.

Prudential said if Ms A had asked if she needed to continue paying to secure the maximum benefits then the answer would've been different. But I still think the representative Ms A spoke with should've been able to explain what the consequences of not paying would be for her. It's clear from the call that Ms A intended to leave the policy running until maturity. And I think the representative told her she could do that, even if she stopped paying. That wasn't right. Had it been explained to Ms A that if she wanted to leave the policy running until maturity she would need to bring the policy up to date and continue paying the premiums, I'm satisfied she would've done that.

Prudential has said the representative offered to send Ms A some information but Ms A refused and said she wouldn't read it. As Ms A had called Prudential to talk about the policy, I don't think it was unreasonable to want a direct answer to her questions rather than wait for information in the post. I would've expected the representative to properly explain the main purpose of the policy to Ms A during this call so that she could make her own informed decision. But, as I've explained above, I don't think that happened. And I don't think it was unreasonable for Ms A to rely on what she'd been told.

I understand Ms A was sent payment reminder letters. I've seen a copy of the letter dated 12 October 2015. It says Ms A could pay all the premiums owing before 11 September 2016. But after this date the policy would cease or benefits would be reduced. It also said:

'If you do not pay the premiums when due this may result in a reduction of benefit or the loss of life assurance or benefit cover. Please refer to your Policy Rules or Conditions for details.'

I don't think any of these warnings were inconsistent with what Ms A had been told on the phone. And I especially don't think it made it clear that the policy would end and the surrender value would be payable. I think the presence of ‘or’ in the above statements meant the consequences of not paying wasn’t clear.

I’ve reviewed the final reminder letter that Prudential says was sent to Ms A in June 2016. But I don’t think this enough to change things. The letter refers to ‘policy cover’ ceasing and ‘reinstatement’ - but without an explanation of what those terms meant, I don’t think anything within the letter contradicted what Ms A was told on the phone. She knew her life cover would end if she didn’t pay premiums, so it’s likely she would’ve understood those terms to refer to the life cover specifically.

Prudential has said Ms A needed to refer to the policy terms to understand the full details. But I don’t think it’s fair to expect the terms to have been readily available to her, particularly as she’d taken the policy so long ago.

If it’d been made clear to Ms A that in order to leave the plan until maturity, she would need to continue paying the premiums, I think it’s most likely she would’ve brought the policy up to date and continued paying into it. So, overall, I think Ms A has lost out.

Prudential has told me that it isn’t possible to reinstate the plan. So, to put things right, I think it should find out what the projected value of Ms A’s endowment is at maturity and pay her the difference now.

Prudential has said it isn’t possible to know the exact value until the plan matures in October 2018. But, as it isn’t possible to reinstate the plan, I think the fairest way to resolve this complaint now is for it to project what the value would be.

Ms A doesn’t think she should have to pay the outstanding premiums. But I think it would be reasonable for Prudential to deduct the premiums owed from any settlement. I say this because Ms A would’ve always needed to pay the premiums to maintain the plan. And I think the sum Prudential has offered to compensate her for the information it gave her on the phone is enough. If Ms A would prefer to use the compensation to reduce the premiums she owes, she should let Prudential know.

my final decision

For the reasons set out above, I’m upholding this complaint.

The Prudential Assurance Company Limited should find out what the projected value of Ms A’s endowment is at maturity and pay her the difference now. It would be fair for Prudential to deduct any premiums owed from the settlement.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms A to accept or reject my decision before 1 September 2017.

Hannah Wise
ombudsman