

complaint

Mr and Mrs G's complaint relates to the sale of a life cover policy in 1999. The Prudential Assurance Company Limited is responsible for the sale.

background

In 1999 Mr and Mrs G arranged a mortgage and a life cover policy. The policy was a level term assurance, meaning the life cover benefit remained level throughout the term and would pay out £50,000 on the first death of either Mr or Mrs G. The policy had a term of 25 years and a premium of £18.50 per month.

The recommendation letter written by the adviser suggested that Mr and Mrs G should have a repayment mortgage so that there was a guarantee it would be paid off at the end of the term. The adviser explained that for this type of mortgage all that was required was a mortgage protection policy (also known as a decreasing term assurance – DTA) where the life cover benefit would decrease in line with the decreasing mortgage debt. However, a level term assurance (LTA) was recommended. This was because the level of life cover would remain the same throughout the term of the policy and so provide more cover than the alternative for only a slightly higher premium. The LTA premium was assessed as being affordable.

In November 2004 Mr and Mrs G wrote to Prudential and told it to cancel the policy. They were informed by Prudential that the policy didn't have a surrender value and that it had been cancelled as requested.

In early 2017 Mr and Mrs G's representative made a complaint about the sale of this policy. However, it mistakenly believed that it was a payment protection insurance (PPI) policy. The representative basically said that the policy hadn't been sold in line with the regulator's rules and guidance. It was confirmed that the policy was not PPI. Mr and Mrs G's representative referred the complaint to this service. It didn't explain what their complaint about the life cover policy was.

The case was considered by one of our adjudicators. Due to the lack of detail about the specific concerns relating to the life policy, she used our inquisitorial jurisdiction to consider the suitability of the sale. She wasn't convinced the policy was suitable and thought that Mr and Mrs G should have been sold a decreasing term assurance policy rather than the level one.

Neither Mr and Mrs G nor their representative responded to the adjudicator following being given a copy of the view.

Prudential didn't agree with the adjudicator. It considered that there was nothing wrong with a level term assurance policy being sold. It was satisfied that the explanation in the adviser's recommendations supported the sale. It asked, as is its right, for the complaint to be referred to an ombudsman for review. As such, the complaint was passed to me.

I issued my provisional decision on this complaint on 13 April 2018. In that document I explained my conclusions and reasons for reaching them.

Initially, I explained that I was satisfied that in 2004, when the policy was cancelled, Mr and Mrs G understood that the policy provided life cover and nothing more. This was clear from their letter they wrote at the time instructing Prudential to cancel the policy.

So I had to consider whether the policy was suitable for Mr and Mrs G in 1999. At that time they were taking out a repayment mortgage on a joint basis, taking both of their incomes into account. As such, I thought that it was reasonable to conclude that if one of them were to die during the term of the mortgage, the other might struggle to maintain the mortgage on their own. So recommending life cover was suitable in the circumstances.

As such, the question I believed needed to be answered was whether the type of life cover policy recommended was appropriate. DTA policies are designed specifically to run alongside repayment mortgages. This is because the level of life cover decreases at around the same rate as the mortgage debt. It ensures that the mortgage is paid off in the event of death and the premium is usually slightly lower than a LTA with the same starting level of life cover. However, for relatively young people, and lower than average value policies like Mr and Mrs G's, the difference in price between the two types of policy wouldn't have been much, probably a few pounds.

Where the additional small premium is affordable, I explained that there is nothing wrong with a LTA being sold instead of a DTA. An LTA would over time provide additional funds to the surviving spouse after the mortgage is paid off, which for most people would be of benefit. It also means that the policy can be used to protect something else in the future, because it has a constant level of life cover, whereas the rate of the decrease of life cover in DTA usually means that it is of limited alternative use if the mortgage it was set-up to protect is repaid.

I had seen nothing in Mr and Mrs G's circumstances that meant additional money wouldn't have been helpful if one of them were to die. So as long as they knew that they were paying more and the slightly higher premium was affordable, I didn't think that recommending a LTA would be considered unsuitable.

Whilst the illustration for the DTA wasn't available, I was satisfied from the comments in the recommendations that Mr and Mrs G were given this option and shown the price of it. It was also confirmed in the recommendations that the £18.50 LTA premium was affordable. The affordability was also demonstrated by the fact that the policy remained in force for several years, until Mr and Mrs G chose to cancel it when they altered their mortgage arrangements. As such, I didn't consider that the policy sold to Mr and Mrs G was unsuitable for their needs or circumstances at the time.

Prudential confirmed that it had nothing further to add following receipt of my provisional decision. Mr and Mrs G's representative didn't provide any further comment either.

my findings

I have considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. As neither party has provided any further comment or evidence, I see no reason to change my conclusions.

my final decision

My final decision is that I don't uphold this complaint. Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs G to accept or reject my decision before 22 June 2018.

Derry Baxter
ombudsman