complaint

The complaint is about Mrs K's endowment savings policy sold to her by a representative of Royal London (CIS) Limited. Mrs K believes the policy wasn't suitable for her circumstances. Mrs K is represented in this matter by a Claims Management Company (CMC).

background

In January 1999 Mrs K met with an adviser as she wanted to save on a regular basis in order to maximise growth. A fact find was completed which recorded that she was 48 years old, single and had one dependant. She was employed with total annual income of approximately £6,000.

After monthly expenditure, Mrs K didn't have any disposable income. She had £500 in savings and she had one existing savings policy. Mrs K was paying monthly premiums of £12 with a sum assured of £1,512. Her attitude to risk was recorded as cautious and her financial objective was to save on a regular basis and to top up her existing life cover.

Mrs K was advised to take out a With-Profits endowment saving policy with a quarterly premium of £84 that provided a sum assured of £2,845. The policy started in March 1999 and it matured on 15 March 2009 with a maturity value of £3,461.07.

A complaint was raised in August 2014 and Royal London provided its final response letter in 2014, rejecting the complaint. As Mrs K wasn't satisfied with the response, she referred her complaint to this service.

The adjudicator reviewed the complaint and concluded that the endowment savings plan wasn't a worthwhile investment when taking into account the charges on the policy. As such, the adjudicator recommended the complaint be upheld as there was no reasonable prospect of a worthwhile return. The adjudicator also noted that Mrs K already had an endowment policy in place.

Royal London disagreed, however, saying the following in summary:

- Mrs K hadn't only needed a savings policy. She was single with a dependent child and so life cover was required as well.
- Although there was an existing endowment in place, this was taken out on behalf of Mrs K's child.
- The policy was affordable and was a small percentage of Mrs K's leisure expenditure.
- The policy established a disciplined form of savings and it was difficult to envisage what other form of savings there may have been available for someone in her low income position.

As agreement's not been reached on the matter, it's been referred to me for review.

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 reviewed the fact find documentation completed at the time of the advice, I'm satisfied that both a life cover and savings requirement had been identified for Mrs K and so, on the face of it, a policy that incorporated both aspects wouldn't be deemed unsuitable.

However, whilst I note that the actual cost of life cover in this instance would have been quite minimal, I have concerns as to the other charges contained in the policy that may have imperilled its ability to provide a reasonable return and therefore satisfy Mrs K's savings requirement.

Unfortunately, whilst I acknowledge the business' comments relating to the charges cap later introduced, the combination of life cover and policy charges will inevitably have had a detrimental effect on the ability of the policy to accrue value. Judging by the figures produced, the reduction in yield was 3.7%, taking the effect of 6% pa growth down to 2.3%. The total effect of the deductions was a 24% reduction in the premiums paid over the life of the policy. This will go some way to explaining that, from the £3,360 paid in premiums, Mrs K received just £100 more than this after ten years.

But another contributing factor here will have been investment returns. I've therefore also considered the type of risk Mrs K's premiums were exposed to and whether this was appropriate for her circumstances. They were invested in a With-Profits fund, which – as noted by the adjudicator - doesn't bear a significant amount of risk. But as noted by Royal London, Mrs K's means were very modest. She had little experience of investment risk and it's therefore doubtful, in my opinion, that she was in a position to be subjecting her monthly surplus income, modest as it was, to any kind of investment risk.

I do note that Mrs K did in fact maintain the policy for ten years. I also acknowledge the point relating to a disciplined form of saving. But Mrs K opted to pay quarterly in person to the Royal London representative. This wasn't a direct debit arrangement and so Mrs K was in any case sufficiently disciplined to have saved the required amount to pass on every three months.

I can therefore see no reason as to why Mr K's requirement for savings and life cover couldn't have been met by a more cost effective stand-alone life cover policy, thereby leaving the majority of the premiums to be invested in an environment that offered a more stable return – with accessibility if required - without the effect of charges.

Overall, I don't consider that, had Mrs K been fully aware of the poor prospect of returns due to charges, she would have opted for this policy. I've also taken into account her available income for investment, in addition to her lack of investment history and experience. I consider it appropriate that a requirement for a return on her savings more in line with a deposit account should have been identified as opposed to the risk based investment she was recommended.

my final decision

My final decision is that I uphold the complaint.

In resolution of the matter Royal London (CIS) Limited should refund the premiums paid to the policy, less the cost of life cover, and add interest at 8% simple pa from the date of each payment to the maturity date in March 2009. It should deduct from this the maturity value and add interest at 8% simple interest to the resulting figure to the date of settlement.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs K to accept or reject my decision before 30 October 2015.

Philip Miller
ombudsman