

## **complaint**

Miss G is being represented by a claims management company. She's complaining about The Prudential Assurance Company Limited (Prudential) because she says her endowment was mis-sold. Miss G's representative set out the following issues:

- Miss G was told the endowment would definitely pay off her mortgage.
- Miss G had no previous investment experience and a low attitude to risk regarding paying off her mortgage.
- Miss G was single with no dependants so she had no need for life cover.
- Miss G would have chosen a repayment mortgage if she'd been properly advised.

## **background**

Miss G's endowment started in November 1988 and had a target of £37,390. She paid a monthly premium and it was to run for 30 years.

Prudential looked into Miss G's complaint and sent its final response in August 2017. It said:

- The illustration provided at the time of sale gave two examples of what the endowment might produce. One of these was higher than the target amount, the other was lower. It says this shows there was the possibility that the endowment may not pay off Miss G's mortgage.
- It has no evidence that an assessment of Miss G's attitude to risk was carried out. But it said the endowment was considered a low risk investment and the documentation provided explained the risks associated with it. It said Miss G borrowed 3.7 times her income – higher than the usual 3 times – which suggests she was prepared to take some risks.
- Endowments can't be sold without life cover. It said the death benefit she had from her employer may not have been acceptable to her mortgage provider.
- It has no evidence that alternative options for repayments of Miss G's mortgage were discussed, but it feels the endowment was suitable for her at the time.

Miss G disagreed with Prudential's final response and referred her complaint to us. One of our investigators looked into the complaint, but didn't uphold it. He said in summary:

- He'd seen nothing to suggest a contractual guarantee that the endowment would repay Miss G's mortgage.
- As the endowment was taken out after the introduction of the Financial Services Act, Prudential had to obtain enough information to know its customer and give recommendations based on that information that were suitable. He felt that the absence of such documentation now (29 years after the sale of the endowment) doesn't mean that the recommendation was not suitable.
- In 1988, the industry view was that with-profits endowments achieved secure growth and, while the risk of shortfall was remote, there was still a risk. At the time, Miss G was relatively young and would still have time to address any shortfall before her retirement.
- He didn't see anything in Miss G's circumstances that indicated the endowment was unsuitable for Miss G.

Miss G didn't agree. Her representative repeated many of the points raised before. As there was no agreement, the complaint has now been passed to me for 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 agree with the investigator's conclusions for much the same reasons.

Due to the passage of time since the endowment was sold it's very difficult to say precisely what was discussed with Miss G at the time. The absence of documentation showing what was discussed doesn't necessarily mean that a discussion didn't take place. So I've thought about whether Miss G's circumstances at the time lead me to think that an endowment was unsuitable for her. I've looked at what happened on the basis of what was known at the time and without the benefit of hindsight.

Miss G was 24 years old at the time and earning approximately £12,000 as a teacher. The endowment was due to run for 30 years, so was due to mature when she was 54 – six years before her expected retirement date. I can't be certain now whether the possibility of a shortfall when the policy matured was discussed, but it's clear from the literature that there was a risk of one. I've seen no evidence of a contractual guarantee that the endowment would pay off Miss G's mortgage.

In the 1980's, it was widely – and genuinely - believed that endowments would produce sufficient returns to provide at least the target sums. With that in mind, I think it's more likely than not that Miss G would have been prepared at the time to take what was perceived to be a very small risk bearing in mind her circumstances. Miss G's policy invested in the with-profits fund, which was thought at the time to present a low degree of risk. It also offered the possibility of paying more at maturity than was needed to repay the mortgage.

With the benefit of hindsight, Miss G may well have taken a repayment mortgage rather than an endowment. But I have to base my view on the circumstances at the time. Repayment mortgages in the late 1980's were often quite expensive as interest rates were higher than they are now. Interest only mortgages with a linked endowment were often less expensive with the added bonus that there may be an additional lump sum afterwards.

As Prudential has said, an endowment can't be sold without life cover and Miss G's likely to have needed life cover for her mortgage. In my experience, lenders are unlikely to accept purely 'death in service' benefits as people often change jobs (as Miss G has) and benefits change. So I don't think the sale was unsuitable due to the life cover element. And given her age at the time, the cost of life cover was likely to have been minimal. I also note that Miss G retained the policy after she switched to a repayment mortgage in 2001. She says one of the reasons was because of the life cover it provided.

Overall, while with the benefit of hindsight Miss G might regret her decision to buy the endowment, based on the information available, I don't think Prudential was wrong to advise her to do so.

## **my final decision**

My final decision is that I don't uphold Miss G's complaint about The Prudential Assurance Company Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 6 March 2018.

Richard Hale  
**ombudsman**