

complaint

Mr K's representative has complained that advice he received from The Prudential Assurance Company Limited in March 1993 to effect an endowment savings policy to which he paid a premium of £20.00 per month over a notional term of 25 years was inappropriate.

Specifically, the representative has said that:

- Mr K's objective was to build up a capital sum for an unspecified date in the future. As he was married with two children and a mortgage, his future long term plans were uncertain and he required flexibility in any savings plan. The policy he was advised was inflexible as it was written with a term of 25 years with 'qualifying' life cover of £5,250 which compromised the ability of the policy to provide a worthwhile return;
- His occupation gave him little financial experience of risk-based investments;
- The whole of Mr K's capital savings were held on deposit, with no emergency fund in place. Deposit savings was a pre-requisite, and not a risk-based policy that committed him to premium payments over 25 years;
- There is no evidence than his attitude to investment risk was adequately established or that he could be considered a 'balanced' investor;
- The policy has inherent risks and there is no evidence to show that Mr K was made aware of other more flexible risk-free alternatives that were available;
- Mr K had more important, shorter term requirements that should have been addressed by other, more suitable ways of saving than this risk-based, inflexible policy.

The representative has requested that Mr K should be returned to *"the position he would have been in if given the correct advice."*

background

Mr K's complaint was investigated by one of our adjudicators, who concluded that it should not be upheld because he considered that the policy was suitable for medium-to-longer term savings, notwithstanding that there was insufficient evidence as to how Mr K's attitude to risk was determined.

In response, Mr K's representative disagreed with the adjudicator's view and maintained that a 'unitised' endowment policy included more risk than Mr K was willing to take, based on his previous experience. His family was heavily reliant on Mr K's income and he could ill-afford to take such a risk with £20.00 per month and could not withstand a policy that provided a 'balanced' attitude to risk, let alone whether Mr K actually knew what a 'balanced' attitude to risk meant. His only experience of an investment product was a With Profits endowment he effected in connection with his mortgage, which represented a lower risk than the unitised policy he was recommended for savings.

As no agreement has been reached in this complaint, it has been referred to me for review.

my findings

I have considered all the available evidence and arguments from the outset, in order to decide what is fair and reasonable in the circumstances of this complaint. Having done so, I find that I agree with the conclusions reached by the adjudicator, and for essentially the same reasons.

As part of its submissions, the representative has not confirmed what prompted Mr K to complain about his policy or whether or not he has surrendered it. It also refers to “*other shorter term financial requirements*” he had, “*alternative savings products*” he should have considered and the “*higher charges*” associated with the policy he was recommended, without submitting what these other financial requirements, alternative products or scale of policy charges were.

The evidence provided by the documentation completed at the point of sale indicates that Mr K wished to save a regular sum to meet possible future school fees and the cost his daughter’s wedding. Given the age of his children and his financial circumstances, I am less convinced that Mr K would be considering payment of school fees that would be due in the short term than a potential need to fund his daughter’s wedding. Based on the ages of his children at the time, it is reasonable to suppose that wedding costs might arise in around 10 years’ time.

At first sight, it is difficult to reconcile the 25 year term of the policy and the financial needs it was intended to meet.

However, the policy Mr K was recommended was written over a *notional* term of 25 years, with the option to surrender it without penalty at any anniversary once it had been in force for 10 years. The policy was flexible in that it consisted of 20 units (or “segments”) which can be surrendered at different times after 10 years according to his financial need. I am satisfied that, in principle, an endowment savings policy Mr K could surrender, or part-surrender, without penalty at any time after 10 years was appropriate for the financial objective he intended for it.

In order for the surrender or maturity proceeds to be tax-exempt, the policy was required to provide a minimum life cover sum assured of £4,500. The policy was written with a sum assured of £5,250 which, given Mr K’s age at the time, would have required a negligible reduction in units to fund the cost of this level of life cover.

As the proceeds appear to be intended for the future benefit of his children over 10 or more years, and not essentially for his own benefit over 25 years, it was entirely appropriate that this policy should include life cover (at minimal cost) that would provide a capital sum of at least £5,250 in the event of his premature death, which could continue to be invested for the financial objective he had in mind at the point of sale; namely, potential school fees and future wedding costs.

The policy invested in the same unitised with profit fund as the mortgage endowment policy already held by Mr K at the time. Therefore, while I accept that an attitude to risk of ‘balanced’ might not truly reflect his previous experience and likely approach to investment, the With Profit fund is suited to an investor who displays a low or ‘cautious’ attitude to risk. I am satisfied, therefore, this policy did not present a degree of risk for Mr K he was not prepared to take.

As mentioned above, the representative has not stated what other financial objectives Mr K held at the time, or what alternative products he should have considered to meet those objectives. The policy he was recommended allowed him to invest £20.00 per month in a ‘cautious’ risk fund that gave him a reasonable prospect of a worthwhile return given the minimal life cover it included compared to the level of cover his mortgage endowment policy

was required to fund. If Mr K's expectations of the return the policy has realised to-date have not been met, this does not mean that the policy was inappropriate.

Of course, with the benefit of hindsight, investing £20.00 per month in a deposit-based account might have produced a greater return for him to-date. However, the policy was recommended as a regular savings plan with a potential for capital growth. While his representative has suggested that he had a more pressing need for a shorter term savings plan, I am not persuaded that Mr K would otherwise have adopted a disciplined approach to saving £20.00 every month to imagine that he would, by now, have been in receipt of a greater capital sum by investing elsewhere.

For the reasons given above, I am inclined to believe that the advice Mr K received to effect this policy was appropriate in the circumstances.

my final decision

My final decision is that I do not uphold Mr K's complaint.

Kim Davenport
Ombudsman