

complaint

Mr and Mrs D's complaint is about a mortgage endowment policy sold to them in 1995 by The Prudential Assurance Company Limited. They have said that they were told the policy would clear their mortgage and provide a large additional lump sum on top. They don't believe that the risk of a shortfall was discussed with them, nor were the other options for repaying their mortgage. Mr and Mrs D have also said that the endowment mortgage was presented as the only type they were eligible for.

Mr and Mrs D are represented by a claims management company.

background

The policy sold to Mr and Mrs D is a low cost with-profits endowment policy. It has a target sum and death benefit of £42,000 and a term of 25 years. It cost them £78.10 per month. The amount payable at maturity is the basic sum assured of £19,950 plus any bonuses allocated during the term or at maturity.

At the time of the sale Prudential completed a personal review document, to document their circumstances, needs and requirements. Mr and Mrs D signed this document. It recorded that Mr D was 29 and employed as a motor technician earning £12,000 a year. Mrs D was 28 and employed as a machinist earning £7,500 a year. They were looking to buy their first home together and had a little under £6,000 in deposit based savings. Both had personal pensions at the time and Mrs D had an endowment policy that was due to mature in 2003.

The reasons why section of the form stated that Mr and Mrs D had had their offer for a property accepted. They had applied for a mortgage with a high-street lender and the adviser was recommending a low cost endowment to match the mortgage amount and term. It also mentioned that Mr and Mrs D had been advised of the consequences of surrendering the endowment early – they would likely get back less than they had paid in. Mr D was also recommended to join his employer's pension scheme.

It was also confirmed on the personal review that an illustration of future benefits of the endowment had been given to Mr and Mrs D. Unfortunately due to the passage of time, a copy of this is not available. However, Mr and Mrs D have confirmed in the questionnaire they completed for this service that they did receive an illustration and remember it showing the returns based on three different growth rates. They have said that all of them showed a figure sufficient to repay their mortgage.

Prudential didn't uphold Mr and Mrs D's complaint. They weren't satisfied with that outcome and referred their complaint to this service.

One of our adjudicators considered the complaint. She didn't uphold it as she couldn't find any evidence that the policy included a guarantee that it would reach its target value. She was also satisfied that the policy wasn't unsuitable for Mr and Mrs D given their circumstances at the time.

Mr and Mrs D's representative didn't agree with the adjudicator. It pointed out that Mr and Mrs D's attitude toward risk wasn't assessed at any point of the application, which it should have been. It said that had this been done, they would have been assessed as risk averse in relation to the repayment of their mortgage. The representative went on to say that had Mr and Mrs D been made aware of the risks associated with the policy, they wouldn't have accepted the recommendation. The representative also said that Mr and Mrs D were unable to make an informed decision based on the lack of mortgage options presented to them.

As agreement couldn't be reached, the complaint has been passed to me.

my findings

I have considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I would firstly comment on the representative's comments regarding Mr and Mrs D making informed decisions about the options available to them. Mr and Mrs D went to Prudential to get advice about their mortgage repayment. I wouldn't expect in that situation for the adviser then to lay out all the potential options available to a consumer and make them decide what was best for them.

The entire point of advice is that someone with more knowledge than a consumer assesses their needs and circumstances and recommends what they think is the best option for them. That option would of course need to be fully explained, including any risks, but I wouldn't expect more than one option to be presented.

So, in this case the personal review form was used to record Mr and Mrs D's circumstances at the time of the sale. They were employed, young first-time buyers, buying a house well within normal lending criteria at the time. So they weren't financially stretching themselves with the new mortgage. The mortgage was also due to end several years before either of them were due to retire and so they would likely have been in a position to deal with any shortfall that might occur before their income dropped in retirement. I can't see anything in these circumstances that says they couldn't have accepted the low level of risk associated with the policy they were sold, had they wanted to.

It is also clear that Mr and Mrs D received an illustration of projected returns from the policy. They have confirmed that it included three projected maturity values, which is correct for the time. However, they have said that all three of the projected maturity values showed the policy maturing at more than the mortgage amount. I find this very unlikely. I say this as the industry regulator set the growth rates to be used for illustrations, the middle of which was considered to be a reasonable assumption of what was likely to be achieved. As such, it is more likely that the middle figure would have been almost exactly the amount they needed to pay off their mortgage, the higher one more than they needed and the lower one would have shown a shortfall.

I would also comment that whilst there was no attitude toward risk documented on the personal review form, that doesn't mean that it wasn't assessed or considered. The fact that a low risk product was sold rather than something of a higher risk would indicate that some consideration was made of the risk appropriate for Mr and Mrs D.

Overall, whilst I accept that it is possible that the policy was not suitable for Mr and Mrs D, I am not persuaded that I have sufficient evidence to say that it wasn't suitable and was mis-sold.

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 D to accept or reject my decision before 23 April 2018.

Derry Baxter
ombudsman