

complaint

Mrs R complains about the advice she received from The Prudential Assurance Company Limited to invest into a Prudential Savings Account (PSA). Mrs R says that the risk of the investment was too high, she was entirely reliant on the Prudential adviser and she found the literature complex and confusing. Mrs R is represented in bringing her complaint.

background

In 1996 Mrs R was advised to take out the PSA. The PSA consisted of a lump sum investment of £1,500 and a regular additional monthly premium of £30. Her money was invested in the with profits fund.

Mrs R's representative complained to The Prudential but it did not uphold the complaint. It said that Mrs R had already invested for many years in a with profits regular savings plan with The Prudential. She would therefore have knowledge of this kind of plan and the risk. Her risk level was also recorded on the financial planning documents when she took the plan out and this suggested a with profits fund was suitable. The PSA was suitable recommendation for Mrs R's savings needs. It also thought its literature was not complex and understandable.

Mrs R's complaint was referred to this service. It was considered by an adjudicator. He did not believe the complaint should be upheld. He said that Mrs R was receiving almost £30,000 from her maturing Prudential savings plan at about the same time as making this new investment. So he did not believe affordability was an issue, even though Mrs R had built up some mortgage arrears. He thought they could easily be cleared using the maturity value.

The new monthly premium was also considerably less than the maturing policy premium and so there was no reason to believe it was not affordable – Mrs R had maintained the existing policy for 20 years. He thought the risk was acceptable and the policy suitable for her savings aim.

Mrs R's representative did not agree. It said that Mrs R's financial issues – materially the fact she had built up mortgage arrears – showed that she should not have been advised to start another long term investment. She should have been advised to sort out her finances before making that commitment. The investment was started before the maturity value had been received.

It was also submitted that at the time the advice was given the mortgage interest was being paid by the department of social security but Mrs R and her partner were to pay the capital repayments. It was these capital repayments that had built up the arrears.

It was confirmed that Mrs R had used the maturity value to repay £24,500 of her mortgage, with £3,000 used to repay debts and pay bills.

The adjudicator was not persuaded to change his view. He thought that Mrs R would have been aware what she committing to and could afford the PSA – which she has done since she took it out. He thought the PSA was an appropriate recommendation.

As agreement could not be reached the complaint has been passed 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 done so I agree with the adjudicator that the complaint should not be upheld.

It seems to me that the main concern now with the advice is with respect to the affordability of the recommendation and advising that Mrs R take out a policy in her financial situation. It is put forward that Mrs R did not have a great deal of savings and was in arrears with her mortgage.

When Mrs R was given this advice she had already been contributing to a similar type of with profits policy for 20 years. And at a much higher premium than the new policy. This at least shows that Mrs R could commit to a long term policy and maintain it. Mrs R did have mortgage arrears and that would be of concern. However my understanding is that this was around £2,000 and had been caused by a period of unemployment. Bearing in mind that Mrs R was soon to receive around £30,000, that debt could be cleared (which it seems it was), leaving her with more than sufficient funds to make the new investment. Mrs R may then have used a large proportion of the maturity sum to repay part of her mortgage – which was her choice. But the fact remains that she had more than sufficient cash funds to make the investment.

I would also point out that I do not believe the financial planning documents show she had only £200 on deposit – they seem to show she had £2,500 (jointly with her partner).

Considering that the new regular premium was only £30 per month I believe that was affordable considering the recorded income (and it has proven to be). I do note the comments about Mrs R's partner's unemployment – who appears to have by far the main income. However the financial planning documents at the time record he was working and record an annual income. The adviser can only base his advice on the information he is given – and I have not seen supporting evidence that Mr R was unemployed at this time – or the adviser knew he was unemployed if that was the case.

I do not find the submission that Mrs R was unsuitably advised to start this new plan before her previous plan matured, persuasive. At most, the two were only about a month apart – both Mrs R and her adviser knew that maturity value was soon to be paid – as it's recorded on the financial planning documents at the time.

So, overall, I do believe the plan was affordable at the time and Mrs R could appreciate the commitment.

In terms of risk of the with profits fund, given its operation it would be appropriate for the more cautious or lower risk investor. Mrs R had previously invested in this fund and her attitude to risk was recorded in the financial planning documents as 'medium'. Whilst medium would seem to me somewhat questionable based on her circumstances, it does tend to show some risk was acceptable. So given the nature of the with profits fund and its risk level, I believe that fund was likely appropriate.

In terms of understanding, I think Mrs R could most likely appreciate her commitment and the operation of the policy – she had already maintained a similar type of policy for 20 years.

Consequently I believe Mrs R received a suitable recommendation.

my final decision

I do not uphold this complaint or make any award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 15 February 2018.

David Bird
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