

complaint

Mr and Mrs P are complaining about the incorrect termination of their life cover policy by The Prudential Assurance Company Limited. They requested to withdraw some of the value but instead Prudential mistakenly terminated the entire policy.

background

Mr P called Prudential on 5 October 2015 to ask how much he could withdraw from the value of the policy. He had done this on several occasions before. He was given a surrender value but explained he didn't want to surrender the plan but wanted to make a withdrawal from the profits. The operator said all that was available was a surrender value and arranged for this to be sent out.

On 9 October 2015 Prudential sent Mr and Mrs P a withdrawal form, an illustration and the cash in value of the plan. A letter sent also confirmed there was no with profits element to the plan and if it was to remain in force, a minimum value of £250 must remain.

Prudential received a completed withdrawal form which it processed and paid Mr and Mrs P £324.12. This resulted in the termination of the policy and was confirmed in a letter to Mr and Mrs P dated 16 November 2015.

When Prudential investigated the complaint it was found that one of its advisers had told Mr P that if premiums cease, cover wouldn't lapse. Whilst there are sufficient units to meet the monthly charges, until the fund value falls below £500, cover will continue. They also explained regular withdrawals can be made for a minimum amount of £50 with £250 remaining in the policy.

After discussions with Mr and Mrs P, Prudential confirmed they had given them incorrect information as they had been told the life cover would continue and this was incorrect. To apologise Prudential offered compensation of nearly £200. It did however initially say they couldn't reinstate the policy. However after some negotiation from the adjudicator investigating the complaint Prudential agreed to reinstate the cover providing certain payments were made.

As the policy was a reviewable whole-of-life plan, Prudential needed to calculate the cost of the mortality charges from 1 December 2015 to date. It also needed to know what the revised cover and premium would've been from 1 April 2016 when the indexation option would've been applied. It also needed to get the outstanding premiums paid (e.g. those from 1 December 2015 onwards) and find out how much the mortality charges would've cost.

Prudential has also said before the plan was surrendered, when each premium was paid, the monthly total of mortality charge and policy fee was greater than the premium being paid. This would mean Mr and Mrs P need to pay a lump sum payment to ensure the policy has a unit value exceeding £250.

Therefore they requested the following;

- Nearly £300 for outstanding premiums
- About £150 to make the policy value up to £500
- Prudential also recommended that around £150 be paid so that it should be at least a year before the policy hit the minimum amount of £500.

The adjudicator who investigated the complaint felt the offer to reinstate and the required payments was fair and reasonable in the circumstances. Mr and Mrs P's main concern was that life cover is in place and would ideally like to stay with Prudential.

Mr and Mrs P didn't agree with the adjudicator. They felt they shouldn't have to pay the backdated premiums as the whole error lay with Prudential. The adjudicator explained she felt there was misunderstanding on both parts and she also had to take into consideration they had received the benefit of the surrender value paid in November 2015 and they had also been compensated for the incorrect information.

As no agreement could be reached the complaint has been referred to me to 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 looked at everything independently, I have come to the same conclusion as the adjudicator, and for broadly the same reasons.

There is no doubt that an error occurred. Wrong information was given to Mr P in a telephone call by Prudential, the result of which was that Mr P relied on that information and proceeded with his withdrawal request. The plan subsequently terminated and ceased to provide any life cover.

Whilst this isn't what Mr and Mrs P wanted (they never wanted to lose their life cover) they did receive the surrender amount and have benefitted from being able to use that. This needs to be taken into account when looking at how best to resolve the matter. I accept that if it had not been for this then there could be an argument for Prudential covering the missed premiums since the incorrect termination of the policy. However the payment of the surrender value, whether incorrect or not, can't be ignored.

I agree that wrong information shouldn't have been passed to Mr and Mrs P and their reliance on this has had consequences. But this has been addressed by Prudential and in my view the amount it has paid them is sufficiently representative of the effect of that wrong information. I think asking Prudential to cover the other required payment such as the back pay in premiums would be more of a punitive measure which is not the aim of this Service.

Having looked at the calculations Prudential has provided I agree they are reasonable and correct. Because the policy was a reviewable whole of life cover plan unfortunately reinstating it isn't as easy as just putting it back in place. In order for the policy to be able to provide the correct level of life cover, it needs to be brought up to date and up to value taking account of mortality costs since the mistake happened. This is why the money has to be paid into the policy.

Overall I can see how frustrating this situation has been for Mr and Mrs P. They are quite right when they say this shouldn't have happened. However Prudential can't be penalised for its error. It needs to reasonably make up for this error. Given Mr and Mrs P have had the benefit of the surrender value it isn't appropriate for Prudential to cover the back pay in premiums. However the sum offered in recognition of the wrong information given is in my view, reasonable in the given situation. I also am satisfied with the other payments

Prudential require in order to reinstate the policy. I therefore don't think that Prudential need to do anymore.

my final decision

My final decision is that I don't uphold this complaint and I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to Mr and Mrs P to accept or reject my decision before 8 August 2016.

Ayshea Khan
ombudsman