

complaint

Mr P complains The Prudential Assurance Company Limited mis-sold him an index-linked reviewable whole of life/critical illness cover policy in 1996 which wasn't suitable for his objectives.

background

Mr P chose a sum assured of £165,000 which initially cost just over £68 a month. The premiums eventually rose to £800 and beyond.

In 2016 Mr P complained to the Pru, saying he wasn't warned about the possible extent of the rises.

It agreed the policy hadn't been suitable for his needs. It said he should've been sold a 25 year convertible term assurance policy with the option of converting this into a whole of life or savings endowment policy without fresh medical consideration. It said the premiums would've been £68 a month.

It offered to refund the difference between what Mr P had paid and the cost of a convertible term assurance policy, and add 8% interest to these differences, on the condition that he cancelled the policy now. It said the compensation would be around £74,000.

Mr P didn't accept this and brought his complaint to this service.

An investigator didn't feel the Pru's offer was adequate.

She said if Mr P had taken out such a policy he would've been able to convert it to a whole of life or savings endowment one and he'd since indicated that he wanted to switch to a whole of life policy. But she said this would now cost more than if a switch had been available without new medical underwriting.

She said the Pru should pay the £74,000 already offered and give Mr P two options:

- The offer of a new suitable policy for the same cost as a convertible term assurance policy referred to in its Final Response Letter
- Or find out the cost of such a policy on the open market and offer to pay the difference between the cost of these premiums and those on a convertible term policy if offered in the first place
- As Mr P said he needed a whole of life policy it should offer to pay the difference in premiums for the next 25 years as a lump sum

The Pru's responses, and its subsequent offer to Mr P, did not appear to accept the adjudicator's view (although this is not clear from its correspondence).

As it did not respond to requests for clarification, this complaint has been brought 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.

I agree that the Pru's original offer did not fully compensate Mr P for its failure to offer him a 25 year convertible term assurance policy in the first place.

It fairly offered to refund the difference between the cost of the premiums he'd paid to date with the cost of premiums on the appropriate term policy.

But this offer was only open if he agreed to cancel the policy without value, thus leaving him without cover for the remaining period of what should've been a policy running till August 2021. It also didn't give him the opportunity to take up the convertibility option of switching to a whole of life policy without new medical underwriting.

I therefore broadly agree with the investigator's outline of what the Pru should do.

Firstly, it should pay Mr P the difference between what he's paid on his policy up to the date he surrenders it and what he would've paid on a 25 year convertible term assurance policy. I understand this was £74,000 earlier in 2016. It should also add 8% simple interest to the difference between the cost of the premiums on these two policies from the date each premium was paid to the date of settlement of this complaint. This is on the condition that Mr P surrenders the policy which will then lapse without value.

Secondly, it should fully compensate Mr P going forward by offering him:

A convertible term assurance policy, requiring no medical underwriting, with a sum assured of £165,000 for a cost of £68 a month to run till to August 2021. It can do this by sourcing such a policy in the market and then offering to Mr P for £68 a month or paying him the difference as a lump sum at the outset.

This will allow Mr P the opportunity to switch to/take out a new whole of life policy any time between now and when his original 25 year policy would've elapsed – with no new medical underwriting.

If Mr P chooses to do this he will need to pay the market rate for what will, in effect, be a new policy, and I cannot say how much these premiums might cost. But this remedy puts Mr P in the same situation he'd now be in if he'd been sold a convertible term policy in the first place i.e. such a policy offers no guarantee about the cost of the premiums after a consumer exercises the option to switch to a whole of life policy.

my final decision

I uphold this complaint and instruct The Prudential Assurance Company Limited to pay compensation as outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 10 February 2017.

Tony Moss
ombudsman