

complaint

Mr and Mrs V complain about advice they received from The Prudential Assurance Company Limited (“the business”) to take a life cover policy alongside their mortgage. They say that the policy was not suitable.

background

Mr and Mrs V arranged a mortgage of £36,000 in 1992. They were sold a decreasing life cover policy with a sum assured of £36,000 and a monthly premium of £30.88.

Having taken further advances in 2001, 2003 and 2006, Mr and Mrs V were advised by their accountant that the policy they held was not supporting their mortgage. They had thought it built up a value like an endowment.

The adjudicator considered the complaint should succeed in part.

In brief, she found nothing to suggest the policy provided savings or a cash value at the end of the mortgage term. However she considered that for an interest-only loan, level cover would have been more appropriate. She said the decreasing policy left Mr and Mrs V under-insured and was therefore unsuitable.

The adjudicator recommended that the business calculate the cost of a level term assurance to compare the cost of cover. If less expensive, she directed it to refund the difference in cost to Mr and Mrs V, along with a payment of £100 for trouble and upset.

The business disagreed and responded that it did not consider the policy unsuitable.

As no agreement has been reached on the matter, it has been referred to me for review and to make a final decision.

my findings

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

Having reviewed Mr and Mrs V’s complaint, I understand they believed they were paying into a policy which would provide a means to repay their mortgage. However, it offers no maturity or surrender value to repay the mortgage, and the sum assured has reduced to the extent it would not cover the debt in the event of a claim.

As the policy was sold at a meeting in 1992, there is limited evidence available. The documents which I have seen do not suggest the policy provided any form of investment or maturity value. I am satisfied the policy documents sufficiently explained that the policy provided cover in the event of death, and did not have any cash value.

Whilst the information recorded at the time does not state if the mortgage was repayment or interest-only, I consider the adviser ought reasonably to have confirmed this. Whilst it was appropriate for him to have sold life cover to Mr and Mrs V, decreasing cover for an interest-only loan is generally not suitable.

The policy would have provided sufficient cover at outset, but as time passed and the sum assured reduced, there would have been a shortfall in the protection of the loan. This service takes the view that level cover would have been more appropriate for meeting the needs of interest-only lending.

I expect that a level cover policy would have likely cost more than the policy Mr and Mrs V took out. However that would have been more suitable advice. Although the term of the mortgage ends soon, I would understand if Mr and Mrs V wanted to be covered for the full loan until that time.

Overall, I don't believe the adviser needed to discuss savings or investment to repay the mortgage. Mr and Mrs V said they wanted protection and by providing life cover that's what the adviser did.

In resolution of this matter Mr and Mrs V should have the option to be protected as if they were advised correctly at the time of sale. This may be at a higher cost than they have been paying, but it will ensure the mortgage is fully insured against death for the rest of the mortgage term.

my final decision

My final decision is that I partly uphold the complaint.

Subject to Mr and Mrs V accepting my decision, I direct Prudential Assurance Company Limited to do the following:

- Calculate what an appropriate level cover policy would have cost at the time of sale, which matched the amount and term of the loan.
- Provide Mr and Mrs V with that level cover until the end of the term at the cost calculated above.
- If less expensive, refund the difference in cost of the cover and premiums paid.
- Add 8% simple interest per annum to each premium refund, from the date the payment was made to the date of settlement.
- Pay Mr and Mrs V £100 compensation for the trouble and upset they have suffered knowing that they have been under-insured.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs V to accept or reject my decision before 26 March 2015.

Ross Hammond
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