complaint

Ms D and Mr F have complained that the whole of life policy recommended by Barclays Bank Plc was not suitable for them because they only required a mortgage protection policy to cover their needs.

background

Our adjudicator investigated the complaint and thought it should be upheld. He stated that there was insufficient evidence Ms D and Mr F required the whole of life policy or that the adviser made them fully aware about the risks involved in taking the policy out. The adjudicator considered that a decreasing term policy would have met their requirements.

The business responded saying that it did not agree. It stated there was sufficient evidence that Ms D and Mr F opted for a whole of life policy because they were keen on open ended cover and the possibility of a surrender value.

As the matter remains unresolved, it has been passed to me for consideration.

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 done so, I have come to the same conclusions as the adjudicator for essentially the same reasons.

In 1993, Ms D and Mr F were buying a property together (they were married at the time). They were recommended to take out a whole of life policy as a means of repaying the loan should either of them die. However, because this was a capital repayment mortgage, the type of life cover that would normally be used is a decreasing term assurance (DTA). This is because with such a policy the cover is designed to reduce in line with the repayments made to the loan.

Barclays has argued that Ms D and Mr F elected to take out the whole of life plan because they were interested in having cover that did not have a fixed term and the possibility of receiving a surrender value. It has drawn attention to notes made by the adviser at the time of the sale that support this view.

I have noted the points Barclays has made and considered the evidence it has referred to.

The documentation from the time is unfortunately barely legible. From what I am able to discern, there does appear to have been some discussion about the different types of policy that could have been used in connection with the mortgage, including DTA. However, as well as being hard to read, the adviser's notes are also somewhat vague as to what was discussed. It is therefore uncertain how much Ms D and Mr F were told about how the various policies operated, and importantly the difference in cost.

I can appreciate that on the face of it a policy that could continue over the longer term, and also allow the prospect of achieving a surrender value, could have appeared attractive compared with one that did not offer such benefits. However, this must be balanced against the comparative costs involved.

A DTA will usually require a lower premium than a whole of life plan for the same initial sum assured. This is because it takes account of the reducing sum assured. Further, the reason why the whole of life plan can accrue a surrender value is because it contains an investment element, which a DTA generally does not. However, this also means that the premium has to include a proportion that is used towards the investment fund, which again will tend to increase the amount to be paid.

Another important distinction between these policies is that the premiums and level of cover for a DTA are usually fixed at outset, whereas with a unit-linked whole of life policy they are subject to reviews from time to time.

In the circumstances, I have not seen sufficient evidence Ms D and Mr F were provided with full information of the policies available to them, to allow them to make an informed decision. Overall, I am not persuaded they would have elected to proceed with the whole of life plan in preference to a DTA had they understood all the implications.

my final decision

I uphold the complaint and require Barclays Bank Plc to compensate Ms D and Mr F by way of D+E, where:

A= The difference between the cost of a suitable decreasing term assurance policy (with the same term and amount of their mortgage) and the whole of life policy that Ms D and Mr F were paying for.

B= Interest at 8% simple should be added to each partial premium at ‘A’ from the date of each premium payment to the date of surrender of the whole of life policy.

C= Surrender value of the whole of life policy.

D= A+B-C.

E= Interest at 8% simple on ‘D’ from the date of surrender of the whole of life policy until the date of settlement.

Doug Mansell
ombudsman