

endowment **action**

Which? and Consumers' Association have created this factsheet to help the estimated 5 million of you that may have been mis-sold an endowment mortgage obtain financial compensation.

This factsheet will help you work out if you were mis-sold an endowment mortgage, understand the complaint process and help you write a complaint letter to the company that sold you the endowment.

WHAT'S THE PROBLEM?

There are over 10 million endowment policies linked to mortgages in the UK. Consumers bought these products as a way of paying off their mortgage. But today, consumers are facing two major problems:

1. Shortfalls

Millions of endowment policies are predicted to fall short of paying off the mortgages they cover .

It is important you take action to tackle any shortfall and there are some tips in this factsheet to help you – see page 6.

2. Mis-selling

There are many reasons why an endowment policy may not have been suitable for you. But broadly, if you were not informed of the risks associated with using an investment product to repay

your mortgage then you may have been mis-sold your endowment and may have grounds for complaint.

Being mis-sold an endowment is a serious matter and it is important that you complain because you may be entitled to financial compensation.

HAVE YOU BEEN MIS-SOLD?

There are specific circumstances, some or all of which may apply to you, that may indicate you received poor advice during the sale of the endowment mortgage.

We have put together a list of **grounds for complaint** (see overleaf) to help you work out whether you should make a complaint.

Many consumers are unhappy because they have a shortfall on their endowment. However, having a shortfall is in itself not a ground for complaint. It is important to understand that when you complain about being mis-sold an endowment policy, you are complaining about the advice you received, not about the performance of the policy or the fact that you have a shortfall.

WHO SOLD YOU YOUR ENDOWMENT?

Think back to when you were sold your endowment. You must complain to the company who employed the adviser who sold you the endowment policy. This could be any one of the following:

- An adviser employed directly by the insurance company
- An Independent Financial Adviser
- An intermediary/broker tied to one insurance company
- An adviser from a bank or building society
- An estate agent
- A solicitor
- An accountant

GROUNDINGS FOR COMPLAINT

There are specific circumstances, some or all of which may apply to you, which give you grounds for complaint. We have listed the four main reasons for making a complaint but remember to tailor a complaint to your individual

circumstances. Also remember that if you haven't suffered any financial loss as a result of being mis-sold, you will not receive compensation. The company or Ombudsman will work this out for you if your complaint is successful.

Often complaints revolve around whether the adviser properly assessed your **attitude to risk**. Look in the box below to consider whether your attitude to risk was properly established by the adviser.

Grounds for complaint 1

Was the endowment suitable for you?

Your adviser should have made sure an endowment was the best way of repaying your mortgage depending on your financial circumstances at the time and your attitude to risk.

These are some of the reasons why the mortgage may not have been suitable for you:

- Other options for repaying the mortgage were not discussed

What is attitude to risk?

Establishing your attitude to risk is an important element of the sales process. An adviser must assess whether an individual consumer is comfortable with the risks involved with a financial product, such as an endowment. As an endowment is based on the performance of the stockmarket, it is inevitably a risky product and its final value can never be guaranteed.

Some consumers are happy to invest on the stockmarket through investments such as unit trusts. Others prefer to save through 'safe' savings products such as bank and building society accounts. This is helpful information for advisers when working out a consumer's attitude to risk as it shows whether

consumers understand the 'riskiness' of financial products and whether they are willing to take that risk.

Often, when consumers were sold endowment mortgages, advisers did not properly assess a consumer's attitude to risk and did not properly establish whether consumers were comfortable with taking a risk that the endowment may not meet the endowment target amount. In addition, if a consumer was comfortable taking on the risk of an endowment, the advisers should have discussed what level of risk the consumer was comfortable with, for example by ensuring the funds the endowment was invested in matched the attitude to risk.

What's the complaints process?

- 1 You must first complain to the company who employed the adviser who sold you the endowment policy.
- 2 It is best to complain to the company in writing, explaining the reasons why you think you were mis-sold. If you do call them, remember to make a note of when you called and who you spoke to.
- 3 Try to find all the paperwork from when you were sold the endowment policy. Request a copy of the file from your endowment company when you make the complaint.
- 4 Many companies will ask for more information from you during their investigation and may ask you to fill in an endowment mortgage questionnaire that the Financial Ombudsman has put together.
- 5 The company should send you a final response letter within 8 weeks. If you are unhappy with the outcome of their investigation or the way they dealt with your complaint, you should contact the Financial Ombudsman Service who will investigate your complaint and make a final ruling.
- 6 If the adviser or company who sold you the endowment has gone out of business you should contact the Financial Services Compensation Scheme. The Financial Services Authority can help if you can't find the company.
- 7 If your complaint is upheld, the company or the Ombudsman will work out whether you are owed compensation. This is not guaranteed to pay off any shortfall you have, but is worked out to ensure you are put back in the position you would have been in had you received suitable advice in the first place.
- 8 There is a possibility that the company and the Financial Ombudsman will reject your complaint. There are no guarantees that your complaint will be successful. However, if you have considered the grounds for complaint and believe you were mis-sold, you should go ahead. The complaint process is free.

fully with you.

- The adviser didn't explain how your endowment would be invested and didn't explain the risks involved.
- The adviser didn't explain that an endowment policy is a long-term commitment that gives a poor return if you cash it in early.
- The adviser didn't check you were comfortable with the risks of stock market investment. The adviser should have explained that the amount you would get back depended on the performance of the policy.
- The adviser may have said the policy was guaranteed or would definitely pay off the mortgage. This may be a grounds for complaint if you can prove it (in writing). If you have no proof, still include it in your complaint

as it may strengthen your case if that is what you were told.

Grounds for complaint 2 The sale didn't follow the rules

Some advisers didn't follow all the rules when they sold you the endowment, for example:

- The adviser didn't explain any fees and charges and how they affect the return you get on your savings. If you bought your policy before 1 January 1995 you should have been given product particulars including charges and cash-in values for the first five years. After that date, you should have been given a Key Features document detailing fees and charges and their effect over the longer term.
- The adviser didn't complete a fact find (setting out your personal financial circumstances) during the sales process.

Grounds for complaint 3 Payments into Retirement

If your mortgage and endowment was set up to continue past your expected retirement age, your adviser should have checked that you would have enough income in retirement to continue to pay the mortgage and endowment premiums. If this wasn't discussed or you were told not to worry because the endowment would pay off the mortgage before retirement, you have grounds to complain.

- Month and year when the endowment policy was sold to you
 - The endowment target amount
- Have a look at the four main reasons for complaint in the grounds for complaint section. When you have decided which, if any, apply to you, use the sample letter as a guide and pick the reasons and supporting information provided in the grid below, as they apply to your circumstances, to construct your letter. You may have other reasons to complain that we have not covered and you should tailor your letter according to what happened to you.

Grounds for complaint 4 Churning

Any endowment policy you held at the time your mortgage was recommended to you should have been used to back your loan. Any adviser who told you to cash in the endowment, and then sold you another one to replace it, was guilty of 'churning'. This is against the financial regulator's rules and gives you grounds for complaint.

WRITE A COMPLAINT LETTER

If you want to write a complaint letter, we have provided a sample letter for you overleaf. You will need to provide the following information to ensure the company can investigate your complaint:

- Name and address of the company who employed the adviser who sold you the endowment policy
- Endowment policy number
- Insurance company your endowment policy is with
- Mortgage reference number

This is an example of supporting information

4 main reasons for complaining and supporting information to be used in your letter of complaint

This is a reason to complain

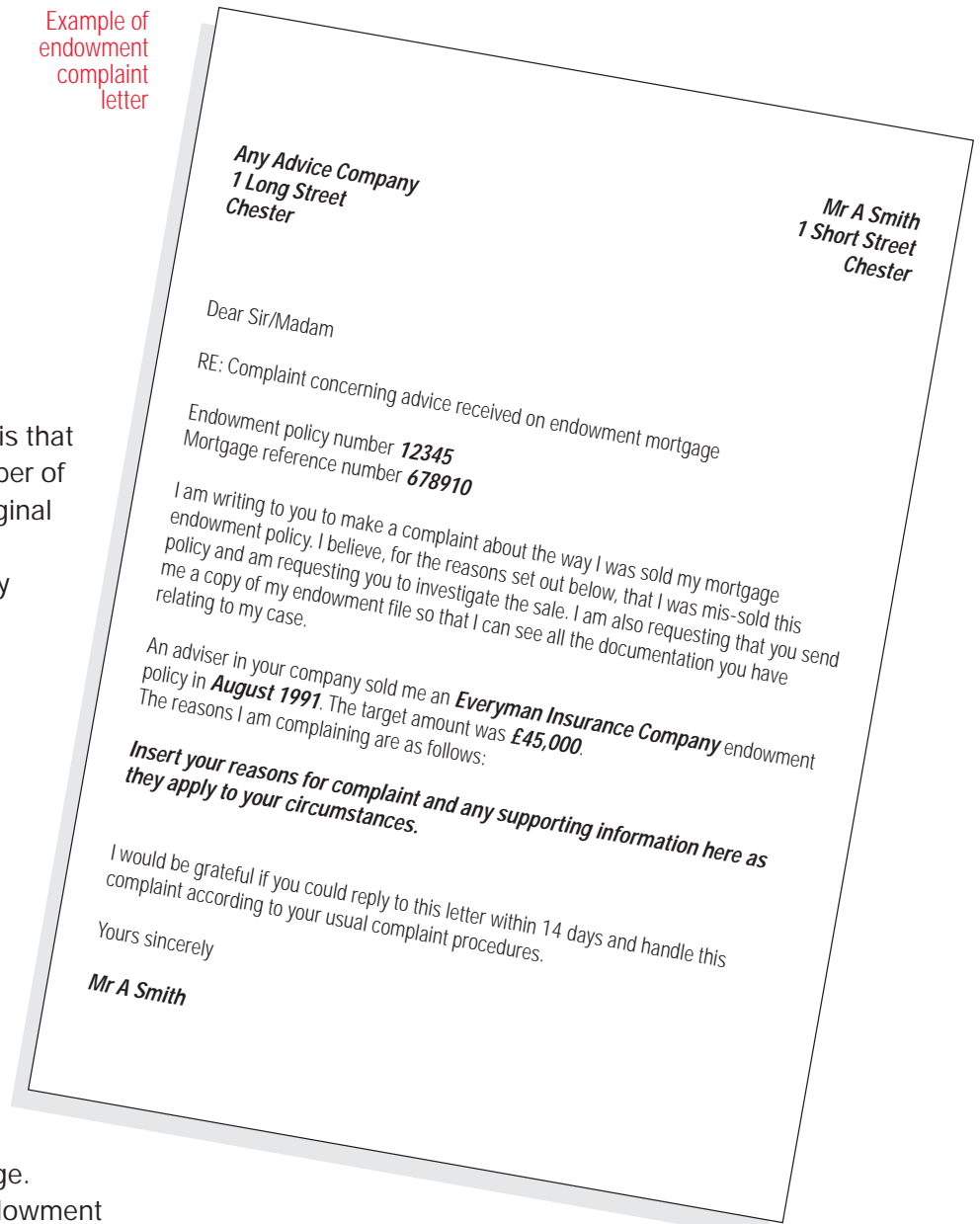
| | |
|---|--|
| <p>1 The endowment was not suitable for me:</p> <ul style="list-style-type: none"> ● Other options for repaying the mortgage were not discussed fully with me ● The adviser did not explain the endowment was a long-term policy and that I would need to be able to keep up payments over the whole term ● The adviser did not explain there was a risk the endowment would not meet the target amount ● The adviser did not discuss in full the funds my endowment was to be invested in ● The adviser did not fully talk through my attitude to risk ● The adviser said the policy was guaranteed / would definitely pay off the mortgage | <p>2 The sale didn't follow the rules:</p> <ul style="list-style-type: none"> ● The adviser didn't fully explain the fees and charges on the policy ● No fact find was completed during the sales process and therefore the adviser did not have full knowledge of my/our financial situation |
| | <p>3 The endowment policy will not mature until after I retire:</p> <ul style="list-style-type: none"> ● And the adviser told me not to worry because the endowment would pay off the mortgage before retirement ● And the adviser didn't properly establish that I could afford the payments after I retired |
| | <p>4 My endowment policy was churned:</p> <ul style="list-style-type: none"> ● I already had an endowment and the adviser told me to cash it in and sold me a new policy |

Example of
endowment
complaint
letter

DO YOU HAVE A SHORTFALL?

The idea behind an endowment mortgage is that it will grow over a number of years to pay off the original mortgage amount borrowed. If your policy won't reach this target, this means you have a projected shortfall and you will have to find another way to pay off this part of your mortgage. Many consumers never understood that it was possible to have a shortfall because they believed the policies were safe or guaranteed to pay off their mortgage. The company your endowment mortgage is with will have sent you letters over the last couple of years explaining what your endowment is projected to be worth at the end of its term. The letter would have explained whether:

- Your endowment policy is on track to pay off the target amount to meet your mortgage
- There is a risk it won't pay off the target amount
- There is a very high risk it won't pay off the target amount.



Many people's mortgages are predicted not to pay off their target amount.

What can you do about your shortfall?

Don't ignore the shortfall – there are several ways you can tackle it:

- Consider making up the shortfall through another type of investment or savings account such as an ISA – you should consider seeking independent financial advice to help you.

- Think about converting the part of your mortgage not covered by your endowment to a repayment mortgage.
- Consider converting the whole of your mortgage to a repayment mortgage. You can either keep paying your endowment premiums and use it as a savings plan or you can freeze payments. If you freeze them, your plan will continue to be invested until the maturity date, but you will receive back much less than predicted as no further premiums are paid in. Before you do this you should check whether charges will be applied to your policy and what will happen to the life cover under your policy.

You should also consider seeking independent financial advice to help you decide what to do about your shortfall.

Increasing endowment payments

Many companies suggest you increase your endowment payments to help meet the shortfall on your policy. We believe most consumers should NOT increase their premium. Part of the reason that some of these policies are failing is because of the high charges applied to them in the early years. Any increase you pay is likely to suffer the same type of charges – your adviser may even receive more commission.

FURTHER INFORMATION

The information in this factsheet can also be found on our campaign website www.endowmentaction.co.uk

Financial Services Authority

Useful factsheets include:

- Endowment mortgages – time to decide
- Endowment Mortgage Complaints

Helpline: 0845 606 1234

Website: www.fsa.gov.uk

Email: consumerhelp@fsa.gov.uk

Financial Ombudsman Service

The Financial Ombudsman Service provides consumers with a free independent service for resolving disputes with financial firms and has produced helpful information and factsheets including:

- Financial Ombudsman Service checklist – How to Complain
- Frequently Asked Questions
- Endowment mortgage questionnaire

An Endowment Case Studies leaflet is available via a hotline: 020 7964 1234

Helpline: 0845 080 1800

Website: www.financial-ombudsman.org.uk

Email: enquiries@financial-ombudsman.org.uk

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) pays compensation if an authorised firm is unable to pay claims against it, usually because it has gone out of business.

Helpline: 020 7892 7300

Website: www.fscs.org.uk

Email: enquiries@fscs.org.uk