# Appendix 1 Handling Mortgage Endowment Complaints

## 1.6 Valuing Relevant Benefits

**App 1.6.1** G If, exceptionally under the *guidance* at ■ DISP App 1.5.13 G to ■ DISP App 1.5.21 G, cash or *shares* derived from a corporate event are to be taken into account when assessing loss and redress, cash should be valued at the amount actually received and *shares* should be valued at their issue price. In both cases there should be no addition for interest.

**App 1.6.2** G When valuing windfall augmentation benefits for the purposes of calculating loss and redress the objective is to exclude all changes arising from the windfall event. The amount of redress payable will then be equal to the amount that would have been payable if the windfall event had never occurred.

**App 1.6.3** G A *product provider* should ensure that the method it adopts for valuing augmentation benefits is consistent with the statements made in the documentation published about the windfall event. Relevant documentation for the purpose of valuing such benefits will include (but is not limited to):

(1) Any description of increases in benefits in any circular to *policyholders* (and any other public information relating to the event);

(2) Any principles of financial management established for the management of the fund after the event;

(3) statements in any report produced by an *actuary* appointed under ■ SUP 4 (Actuaries) for the event;

(4) statements in any independent *actuary* report produced for the event; and

(5) subsequent statements relating to bonus practice, calculation *surrender values*, or both.

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**App 1.6.4** G The method of valuation adopted should treat the complainant fairly overall.

**App 1.6.5** G Where an accurate calculation of the value of an augmentation benefit either cannot be made, or would result in disproportionate expense or delay, *product providers* may adopt a simplified approach or a proxy method for calculating its value.

**App 1.6.6** G A simplified approach should treat the complainants fairly overall.

**App 1.6.7** G An *actuary*, appointed by a *product provider* under SUP 4 (Actuaries) should certify that the method adopted by the *product provider* for calculating the value of an augmentation benefit is in accordance with the *guidance* in DISP App 1.6.1 G to DISP App 1.6.6 G.

### Implementation

**App 1.6.8** G The principles set out above (in DISP App 1.6.1 G to DISP App 1.6.7 G) should be applied directly to mortgage endowment complaints where the capital loss is calculated by comparing the *surrender value* of the endowment *policy* with the capital which would have been repaid using a repayment mortgage.

**App 1.6.9** G In most cases where there is a loss, the endowment *policy* will be surrendered and put towards the cost of setting up a suitable repayment mortgage. Where this is the case, that part of the *surrender value* relating to the windfall augmentation should be paid as a cash lump sum to the investor or to the investor's order as part of the redress package. Only that part of the *surrender value* which does not relate to the windfall augmentation should be put towards the cost of setting up a suitable repayment mortgage.

**App 1.6.10** G There may be some circumstances in which the *policy* will not be surrendered (see DISP App 1.2.15 G). In these cases, there is no requirement to pay the value of the windfall augmentation as a cash lump sum since the value of the augmentation will become payable when the *policy* matures. However, any fund value used in the calculation of redress payable should exclude the value of the windfall augmentation.

**App 1.6.11** G *Firms* are entitled to mitigate losses by making use of the Traded Endowment Policy (TEP) market (see DISP App 1.3.8 G to DISP App 1.3.10 G). This allows *firms* to *sell* policies on the TEP market to meet the costs of redress, rather than using the *surrender value*. Where this method is adopted, *firms* should pay to the investor, as part of the redress package, a cash lump sum representing that proportion of the *policy* realised which would have related to the windfall augmentation.

**App 1.6.12** G As this windfall amount should be excluded from the fund value used in the calculation of loss and redress it would also be appropriate for this extra payment to be ignored when assessing whether, "the net amount realised by the sale of the *policy* on the traded endowment market exceeds the total redress due to the complainant..." (DISP App 1.3.10 G).

**App 1.6.13** G There may be circumstances in which a *policy* needs to be reconstructed (see DISP App 1.4). In carrying out the required reconstruction, the windfall augmentation should be ignored in both the existing and the revised *policy*. However, the *policyholder's* revised *policy* should be credited with any windfall augmentation which would have applied if the *policy* had been set up with the revised terms from the original date of advice. This enhancement can be taken into account in assessing a suitable level for future premiums, in line with DISP App 1.4.8 G.

**App 1.6.14** G DISP App 1.5.10 G provides *firms* with the opinion of underpinning benefits. *Firms* should satisfy the *FCA* that their proposals provide complainants with a level of redress that is at least commensurate with the standard approaches and, to ensure consistency, windfall augmentations should be excluded when considering whether an underpin will apply. The *FCA* will take this into account when considering proposals put forward by *firms*.

**App 1.6.15** G *Product providers* with windfall benefits in the form of *policy* augmentations should tell:

(1) their own relevant *customers* (mortgage endowment complainants); and

(2) other *firms* with such *customers* (and any other interested parties);

that they have excluded windfall augmentation benefits from values used or to be used for loss and redress. *Firms* should provide this information to the *Financial Services Compensation Scheme* when providing them with a value to be used for loss or redress. Should their own relevant *customers*, other *firms* with such *customers* (and any other interested parties) and the *Financial Services Compensation Scheme* request it, the *firm* should provide the value of these benefits and a description of the method used to exclude them.