

Debt vs profit – was the life insurance/endowment policy misrepresented?

Sarah needed help with a whole of life insurance policy against which she had taken out a loan. A financial advisor gave her several options. She chose the option that wouldn't require her to make any more premium payments, would convert into an endowment policy that matured in 12 months, and would provide a pay-out. The estimated pay-out was about \$25,000. The options did not remind Sarah that the loan would have to be repaid and did not show the value of the pay-out after the loan repayment.

Sarah later realised she would receive substantially less than she had anticipated, because of the outstanding loan debt. She complained to FDRS on the basis that she felt that she had been misled by the advisor.

The adjudicator considered the advisor's obligations under the Code of Professional Conduct for Authorised Financial Advisors and determined that they had been breached. The quotation document provided to Sarah did not include the debt owing on the policy. Given the significant difference between the quoted return and the actual return after deduction of the loan, the advisor had an obligation to inform Sarah of the difference.

The adjudicator upheld the complaint in part. The communication with Sarah did not meet the standards required in the Code and the advisor was required to give her a written apology. However, the adjudicator found that no loss has been established for which the advisor was liable.