

Financial Services Consumer  
Panel  
Mortgage Endowment  
Reprojection Research  
Report  
Autumn 2000

## Mortgage endowment reprojection research report

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### An introduction from the Financial Services Consumer Panel

1. In July 2000 the Financial Services Consumer Panel commissioned a survey of mortgage endowment policy holders who have received reprojection letters from their insurance company to find out what action, if any, they are taking and why. The research also took the opportunity to ask consumers about their understanding of the endowment shortfall problem and their recollection of the sales process when they bought their endowment.
2. The report from the research agency that carried out the survey, IFF Research, is attached. It provides an executive summary of the findings; sets out the background to this issue; explains the methodology of the survey; and discusses the findings in detail.
3. The findings show that the reprojection letters successfully got their message through to most policy-holders. A high proportion of policy-holders, 84%, had kept the letter containing the reprojection of their policy. We are pleased that, on the whole, respondents to the survey found that the reprojection letter from their insurance company was clear: 94% thought it was fairly or very clear and understandable.
4. Generally, the policy-holders who may need to take action but are slower to do so are those who received a reprojection of their policy at maturity showing a shortfall at 4% and 6% growth rates. It is unsurprising that these policy-holders are least likely to be clear about their situation but our research underlines the importance of future mailings to these and all policy-holders updating them on the projected value of their policy at maturity.

5. Our survey showed that 54% of respondents recall being told at the point of sale that their endowment policy 'would definitely' or 'was guaranteed to' pay off their mortgage. The FSA issued consumer guidance in early October called 'Endowment Mortgage Complaints'. The guidance aims to help consumers identify whether their policy was mis-sold and they suffered loss as a result. We welcomed this publication which will undoubtedly benefit those who know they have a problem and hopefully lead to speedy resolution for many people. However, it will not get to everyone who needs it and will not be routinely sent out by companies unless a complaint is made. We consider that where there is evidence that firms broke the rules and mis-sold unsuitable endowments they should be required to act promptly, identify consumers affected and pro-actively review those sales. It should not be left to consumers to go through the time-consuming process of making a complaint where the fault lies with the company.
  
6. The Panel welcomes the report from IFF Research and we are sure that its findings will prove useful to everyone working to secure consumer protection and consumer understanding at this difficult time.

## About the Financial Services Consumer Panel

The Financial Services Consumer Panel was established by the Financial Services Authority (FSA) in December 1998 to ensure that consumers' interests are represented in the development of the regulation of financial services. The Panel is independent of the FSA so that it can: advise the FSA on policy as it evolves, monitor the FSA's effectiveness in meeting its statutory objectives towards consumers, review developments in financial services where they impact on consumers, and publicly report its findings and recommendations. It can raise its own concerns and has resources to carry out its own research.

### Who is on the Panel?

#### Barbara Saunders (Chairman)

Barbara is a public interest member of the PIA Board. She is an independent consumer consultant and past Chairman of the Council of the Insurance Ombudsman Bureau. Among other public and professional appointments she is a Non-Executive Director of the West Hertfordshire Hospitals NHS Trust and a member of the Architects Registration Board.

#### Colin Brown (Vice Chairman)

Colin is an independent consultant specialising in consumer affairs. Previously Deputy Director of Research at Consumers' Association and Senior Fellow at the Policy Studies Institute, he has over 20 years' experience of social and consumer research.

#### Jean Gaffin

Jean was Chairman of the Advisory Committee on Telecommunications for Disabled and Elderly People (until 31.12.1999) that provides advice to the telecommunications regulator, OFTEL, and is a Non-Executive Director of Harrow & Hillingdon Healthcare NHS Trust. She has extensive experience of working on behalf of vulnerable consumers. Previous positions include: the Executive Director of the National Council for Hospice and Palliative Care Services and Chief Executive of Arthritis Care.

#### Yvonne Gallacher

Yvonne is Chief Executive of Money Advice Scotland, which was set up by the Scottish Consumer Council. She has over 10 years experience of consumer credit/money advice issues and of working with vulnerable consumers in a variety of roles, including debt counsellor, trainer and manager. She is Co-Director and Secretary of the Government funded Lead Body for Advice, Guidance, Counselling & Psychotherapy (CAMPAG). Yvonne is a member of the Scottish Consumer Council.

### **Joan Harbison**

Joan is Chief Commissioner of the Equality Commission for Northern Ireland. She was Chair of the Commission for Racial Equality for Northern Ireland since its inception in 1997 and is a former Chairman and member of the Executive Committee of the Northern Ireland Association of Citizens' Advice Bureaux. She has held a number of public appointments including being Vice Chairman of the Eastern Health and Social Services Board and the Northern Ireland Standing Advisory Commission on Human Rights and was a founding member of the Human Fertilisation and Embryology Authority.

### **John Howard**

Solicitor with extensive experience as a former presenter/editor of the daily consumer programme on Radio 4 'You and Yours'. John is currently a freelance broadcaster and his work includes presenting personal finance TV programmes. He is a member of Mortgage Code Compliance Board.

### **Vinod Kumar**

Social scientist with market research skills and extensive voluntary and public sector experience of policy analysis and research. Now retired, Vinod has previously worked for the Commission for Racial Equality and was Head of Policy and Research at the Royal National Institute for Deaf People. He is currently Non-Executive Director of Barnet Health Authority, Board member of the South Barnet Primary Care Group and member of the Consumer Liaison Group of the Medical Research Council.

### **Gerald Lanchin**

Gerry is a Vice President of the National Federation of Consumer Groups. He is a former Under Secretary of the Consumer Affairs Division of the Department of Trade and Industry and author of "Government and the Consumer". His involvement in consumer protection includes being a former Council Member of Consumers' Association and of Consumer Congress Committee. He was the first chairman of the Direct Mail Services Standards Board and a member of the Data Protection Tribunal for 10 years.

### **Nick Pearson**

Nick is the National Money Advice Co-ordinator for the Federation of Independent Advice Centres. A career spent in advice organisations including the National Association of Citizens' Advice Bureaux where he was manager of the Money Advice Support Unit, he has particular experience of credit, debt and personal finance issues and of working with vulnerable consumers.

## **Paul Salvidge**

Paul is a former Senior Civil Servant with extensive experience of regulatory work, employment law, competition, consumer protection, telecommunications, financial services and company law. He was previously Competition Policy and Consumer Affairs Director at the Department of Trade and Industry.

## **Richard Smethurst**

Richard is Provost of Worcester College, Oxford University; he chairs the Training Standards Panel of IMRO, of which he is a non-executive Director. He has served as an economic adviser in Whitehall, and the Monopolies and Mergers Commission, where he was Deputy Chairman. Richard lectures widely on financial and economic topics to businessmen and adult education groups. He is President of the National Institute of Adult Continuing Education.

## **Jane Vass**

Jane is an independent consumer researcher specialising in financial services. She was previously Head of the Financial and Economic Research Group at Consumers' Association and is still author and editor of a number of Consumers' Association publications in addition to other research, including work for the National Consumer Council. Her current committee memberships include: Council of the Ombudsman for Estate Agents, the Inland Revenue Tax Law Rewrite Project Consultative Committee and the FSA Training Advisory Panel.

## **Dave Watts**

Dave is a partner in a media business which is involved in publishing, editing and journalism - personal finance plays a large part in this. He is a former editor of "Which?" and "Money Which?" and former Assistant Director of Consumers' Association. He was also a policyholder representative on the Insurance Brokers Registration Council for nine years.

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# **Mortgage Endowment Reprojection**

Research Report

prepared for

**Financial Services Consumer Panel**

by

**IFF Research Ltd**

November 2000

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# Mortgage Endowment Reprojection

Research report prepared for **Financial Services Consumer Panel** by  
**IFF Research Ltd**

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## Executive Summary

- 1.1 This report presents the main findings of a quantitative study which examined consumers' reaction to the Mortgage Endowments Re- projection Exercise and what actions, if any, they are taking.
- 1.2 As part of the Exercise providers are writing to policy-holders to tell them if their policy is on target to pay off their mortgage in full or not. There are three types of letter being sent out- red, amber and green:
- The **red** letter indicates that there is a high risk that the policy will not yield enough to pay off the mortgage in full and strongly suggests they take action;
  - The **amber** letter states that it is possible that the policy will not yield sufficient to pay off the mortgage in full and suggests that they consider taking action;
  - The **green** letter confirms that the policy is on track to pay off the mortgage in full and that no action is required.
- The colour is an industry description of the warning and type of letter and is not communicated to policy-holders in any way.
- 1.3 The research was conducted by telephone among 607 policy-holders who claimed to have received a re-projection letter.

## Main findings

- 1.4 A high proportion of policy-holders who received red or amber letters have taken, or intend to take, action (71% and 66% respectively). As might be expected, policy-holders who have received a red letter were taking action more urgently. Almost half had already taken action and most of the rest said they would do so over the next 3-6 months. Those who received amber letters have been slower to take action, with under two in five (38%) having done so already and over half the remainder not planning to do so for at least 6 months.

	All policy-holders	Policy-holders received red letters	Policy-holders received amber letters	Policy-holders received green letters
Have/intend to take action	55%	71%	66%	38%
Breakdown:				
Have taken action already	34%	48%	38%	25%
Intend to take action (but not done so already)	21%	23%	28%	13%

- 1.5 The main actions policy-holders had or were likely to take were:

- Start an additional savings scheme (25%);
- Change part of mortgage to repayment mortgage (24%);
- Make extra capital payments (22%);
- Increase contributions to existing policy (21%);
- Talk to a financial adviser (18%).

Few policy-holders had already cashed in their policy (2%), but a slightly higher proportion suggested they might do so in future (7%). An even smaller number (1%) had kept their policy but stopped making payments into it and 2% suggested they might do this in future.

- 1.6 Most of those policy-holders who received red or amber letters who were *not* intending to take any action had a valid reason for not doing so, for example the shortfall was small and/or they could cover it from other savings, they had already paid off the mortgage or switched part of it to a repayment mortgage etc. Only a small proportion of these policy-holders had not taken

any action because they thought the letter showed their policy was on target to pay off their mortgage in full. They represented 10% of policy-holders who had received red and amber letters who were not intending to take action but only 2% of all policy-holders receiving red or amber letters. They were more likely to be policy-holders receiving amber letters and may reflect the more ambiguous nature of the amber letter.

Just over half of all policy-holders (59%) had discussed the letter or their situation with someone else. In most cases this was the joint policy-holder or a friend or relative. Only a quarter of policy-holders had consulted their provider or a professional adviser or the FSA, although this proportion rose to 41% amongst those who had already taken action. Only 5% had contacted their endowment provider/helpline. Most policy-holders (86%) who contacted their provider or a professional adviser to discuss their situation were satisfied with the response they obtained. Those who were not, generally wished they could have obtained more specific guidance on what they should do next.

- 1.8 The re-projection letter generally worked well, with most policy-holders understanding why it was sent and what actions, if any, they needed to take and the options available to them. Those policy-holders receiving red and amber letters also understood that action was required sooner rather than later. A small proportion of policy-holders did not fully understand the terms 'shortfall' and 'surplus' and what these figures were intended to show or complained that the letter did not provide them with enough information/guidance on what to do next.
- 1.9 When policy-holders were asked why they thought that some endowment policies will not produce enough money to pay off the mortgage they were taken out to cover almost two thirds (62%) mentioned spontaneously that it was because of economic changes and the reduction in growth rates. A quarter (23%) felt it was because the endowment company had poorly managed the fund, but only one in six (15%) felt it was because the salesperson had exaggerated the likely returns. However when asked how they felt more generally about the issue, over a third of policy-holders mentioned spontaneously that they felt the endowment companies had exaggerated returns and had not been entirely honest with them about the risks involved.

When asked directly what they recalled being told during the sales process, only one in ten policy-holders claimed they were told there was a risk the policy would not cover the mortgage in full. On the other hand only one in ten also claimed that they were told the policy was guaranteed to pay off their mortgage in full, but a further 44% policy-holders claimed they were told it would definitely pay off their mortgage and probably provide a surplus on top.

## Conclusions

- 1.10 The survey results show that the Mortgage Endowment Re-projection Exercise has worked well, with high proportions of policy-holders who received red or amber letters having taken or planning to take action. Most policy-holders have also heeded the warning not to cash in their policies.
- 1.11 There is no evidence to suggest that the re-projection exercise has given rise to any significant consumer detriment.
- 1.12 However we have some concerns in two areas, which the Consumer Panel may wish to monitor in future:
- Policy-holders who received an amber letter were most likely to be confused about their position and what to do next. There is a danger that they may put off taking action as a result;
  - The relatively low proportion of policy-holders who were consulting their provider or a professional adviser about their situation and the most appropriate course of action for them to take.
- 1.13 There is evidence to suggest that a significant proportion of policy-holders feel they were misled by the endowment provider about likely returns on policies and their likelihood to pay off the mortgage in full.

## Recommendations

- 1.14 Whilst the results of this study show that the re-projection exercise has generally worked well, we make a small number of recommendations to improve the process further:
- Sending policy-holders who received red or amber letters a reminder, in say 3-6 months time, to prompt them to take action where necessary, if they have not already done so;
  - Explain the terms 'shortfall' and 'surplus' in the endowment plan, rather than just in the accompanying booklet;
  - Suggest where policy-holders, who are in anyway confused about what to do next, can obtain help;
  - Encourage policy-holders to consult their mortgage provider/professional adviser to help determine the best option for them. For example at the end of the section entitled 'Action you could take' add *"An IFA or your mortgage lender can explain the options you have in more detail and advise which is the best option for you"*
- 1.15 In terms of fulfilling the original research brief, further research on consumer detriment among this sample is unlikely to be worthwhile. However it may be of interest to contact those policy-holders who said they were likely to take action in the future to determine whether they had done so or not.

## 2 Introduction

### Background

- 2.1 As a result of the significant falls in inflation and interest rates, yields on mortgage endowment policies are likely to fall. This fall will mean that some endowment policies, particularly low cost or low start policies, may no longer be on track to pay off the mortgage in full at the end of the term.
- 2.2 In July 1999, the PIA reduced the rates that firms use to illustrate the growth for regulated life and pension products to 4%, 6% and 8%. Companies providing endowment policies will now regularly assess whether these policies are on target to pay off the mortgage in full.
- 2.3 As part of this process they are reviewing all policies between April 2000-June 2001 and writing to policy-holders to tell them if their policy is still on target. There are three types of letter being sent out – red, amber and green:
- RED: The model letter contains the following warning: *“Your Plan Update is enclosed. Based on this, we consider there is now a high risk that your Plan may not pay out enough to repay the target amount at maturity. Investment growth in future would need to be higher than the rates currently set by the financial regulator. We therefore strongly suggest you consider taking action”*;
  - AMBER: The model letter contains the following warning: *“Your Plan Update is enclosed. Based on this, we consider it possible that your Plan may not pay out enough to repay the target amount when it matures. It would only be able to pay out the target amount if future investment growth was towards the top end of the rates currently set by the financial regulator. In view of this you may wish to think about taking action”*;
  - GREEN: The model letter contains the following warning: *“Your Plan Update is enclosed. Based on this, we are pleased to confirm that we believe your Plan is currently on track to repay the target amount when it matures. It needs future investment growth towards the lower end of the current rates used for future projections as set by the financial regulator. It is unlikely that you need to take any action now”*.

The colour is an industry description of the warning and type of letter. This is not communicated to policy-holders in any way.

- 2.4 Earlier in the year product providers issued letters to their mortgage endowment policy-holders explaining about the exercise and enclosed a factsheet from the FSA called ‘Your endowment mortgage – what you need to know’. IFF also undertook an exercise, on behalf of the FSA, to examine the impact of this initial correspondence.

## **Main Objectives**

- 2.5 The aim of this research was to examine how consumers were reacting to the re-projection letter and what action, if any, they are taking. More specifically the research aimed to examine:
- Consumer understanding of the re-projection exercise and letters;
  - What actions, if any, consumers had or were likely to take, the reasons for taking this course of action and what information and advice they had received in the process;
  - The extent and nature of consumer detriment which arose from the re-projection exercise;
  - Whether consumers felt the exercise was associated with mis-selling or economic change;
  - Identifying any patterns in behaviour and attitude depending on the type of letter received;
  - Evaluate the reasons for people's decisions and plans.

## **Methodology**

- 2.6 A telephone survey was conducted among 607 policy-holders who recalled receiving a re-projection letter.
- 2.7 Contacts were obtained from a list of mortgage endowment holders.
- 2.8 Respondents were carefully screened to see whether they recalled receiving the re-projection letter and determine which of the 3 letters they had received.
- 2.9 The number of interviews achieved with policy-holders receiving the different letter types were:
- 101 Red;
  - 196 Amber;
  - 310 Green.
- 2.10 Those receiving amber and red letters were over sampled. Results were therefore weighted, at the analysis stage, to reflect the overall proportion of letters sent:
- 12% Red;
  - 45% Amber;
  - 43% Green.

All the findings in this report are based on the weighted results.

- 2.11 Fieldwork was conducted between 18<sup>th</sup>-29<sup>th</sup> September 2000. A copy of the questionnaire is provided in Appendix 1.

## **3 Main Findings**

### **Profile of respondents**

3.1 By way of an introduction to the main findings of the study, this section outlines the profile of the policy holders surveyed, in particular:

#### **Demographic Characteristics**

- Gender
- Age
- Socio-economic group
- Employment status

#### **Number and nature of policies held**

- Number of policies held
- Whether policy held jointly or solely
- Date policy was taken out
- Projected shortfall at 6%
- Churn (whether the current policy replaced a previous policy that was linked to the mortgage)

## Demographic Characteristics

- 3.2 Over half of policy holders surveyed were male (58%) and aged under 45 years of age. Most were aged between 35 and 44 years (41%).
- 3.3 Almost two thirds of policy holders were in the socio-economic group ABC1 (62%) and most worked full time (74%).

	Demographic Characteristic	% of Respondents
<b>Gender</b>	Male	58
	Female	42
<b>Age</b>	Under 35 years	18
	35-44 years	41
	45-54 years	29
	55+ years	12
<b>Socio-economic group</b>	ABC1	62
	C2DE	38
<b>Working Status</b>	Working full time	74
	Working part time	15
	Unemployed*	10

\*This figure does not include any retired policy-holders. The figure for retired policy-holders was too small to analyse sufficiently.

## Number and nature of policies held

- 3.4 Just under half of all policy holders (48%) had more than one policy. Those aged 35-44 were more likely to hold two or more policies compared to other age groups. Those aged over 55 years tend to hold only one policy.
- 3.5 2/3 were joint policy holders.
- 3.6 49% took out the policy over 10 years ago (up until 1989). Those who received red and amber letters were slightly more likely to have taken out policies more recently (from 1989 onwards).
- 3.7 15% of the [policy-holders'] consumers' policies had replaced a previous policy that was linked to their mortgage the reasons for this switch were not examined in this survey.

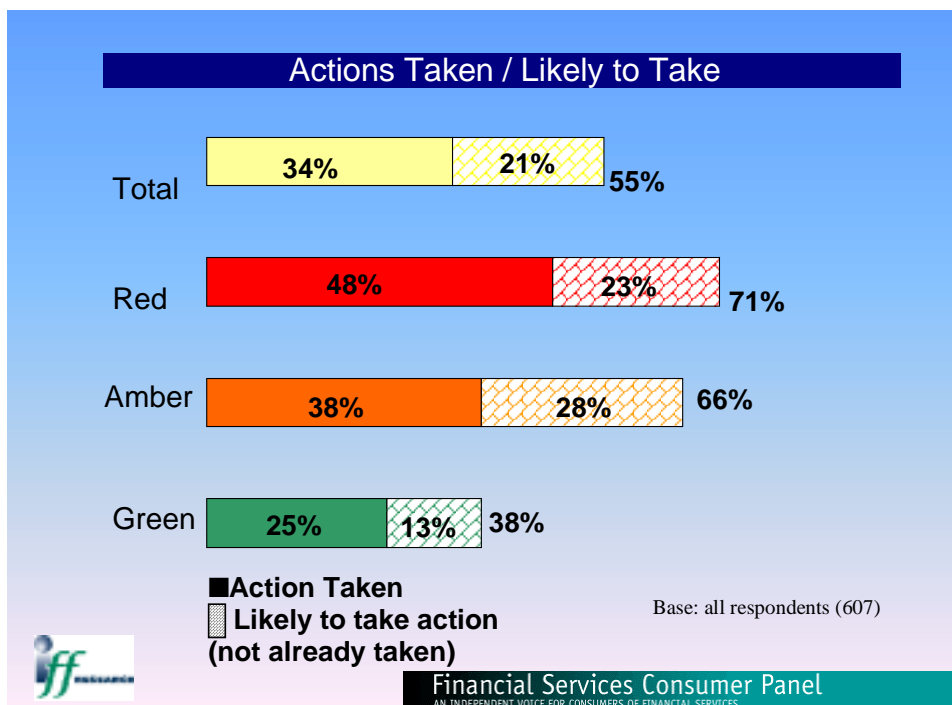
3.8 Those who had received a red or amber letter were asked what the projected shortfall was likely to be at 6%. Most of the policy-holders were facing a shortfall of between £1,000-10,000. There was no significant difference in the amount of shortfall between those sent red and amber letters.

Projected Shortfall	% of Respondents
<£1k	13%
£1-5k	26%
£5-9k	21%
£10k+	15%
Can't recall	25%

3.9 There was little difference in the characteristics of people receiving different letters, however those respondents in the over 55 age group were more likely to have received green letters (61%). This is probably due to the short amount of time left to run on the mortgage. 80% took out their policy more than 10 years ago.

## 4 Action taken/likely to take

- 4.1 The following section examines the action that respondents have already taken or are intending to take as a result of the re-projection exercise. It looks into the differences in behaviour between those who received red, amber and green letters and the characteristics of those taking no action at all. It also examines the main sources of advice/information and discussions undertaken with others about the issue of endowment re-projections.
- 4.2 Just over half the respondents had taken action already or were likely to take action in the future. The proportion was significantly higher amongst those receiving red and amber letters, with 71% and 66% respondents having taken action or being likely to do so in the future. Only about 2 in 5 policyholders who received a green letter had or intended to take action.
- 4.3 Amongst those who had or intended to take action, a third of all respondents had taken action already and a further 21% were likely to take action in the future, who had not already taken action. A significant proportion (42%) of those who had already taken some action were likely take further action in the future.



- 4.4 Amongst those receiving red letters almost half had taken action already. This represents about two thirds (68%) of those who were likely to take action at all (either now or in the future). The comparable proportion for those receiving amber letters was only just over half (58%).

- 4.5 Of those who had already taken action, 40% had done so in the last 3 months, which can be largely attributed to the re-projection letter and 60% did so some time in the last year, which can be largely attributed to the re-projection exercise as a whole. The remainder took action 2-3 years ago.
- 4.6 Of those who were likely to take action in the future, 33% planned to do so in the next 3 months. This proportion rose to 57% amongst those receiving red letters. However over half the respondents did not plan to take action for at least 6 months or were not sure when they would take action; including 60% of those receiving amber letters.
- 4.7 The results indicate that a high proportion of policy-holders who received both red and amber letters had or intended to take action but, as might be expected, those receiving red letters attached a greater urgency to dealing with the issue. However we have some concern that policy-holders who received the amber letters and do not intend to take any action for a while, might lose the impetus or not do so at all, unless reminded.

### Type of action taken/Intending to take

- 4.8 The table below illustrates the main types of action policy-holders have taken or were likely to take in the future.

Type of action	Action already taken	Action likely to take
<b>Base:</b>	<b>204</b>	<b>213</b>
<b>Talk to financial adviser</b>	<b>9%</b>	<b>9%</b>
<b>Additional savings</b>	<b>9%</b>	<b>16%</b>
<b>Extra capital payments</b>	<b>7%</b>	<b>15%</b>
<b>Change part to</b>	<b>5%</b>	<b>19%</b>
<b>Inc. contributions to</b>	<b>5%</b>	<b>16%</b>
<b>Top up policy</b>	<b>3%</b>	<b>11%</b>
<b>Extend mortgage term</b>	<b>1%</b>	<b>3%</b>
<b>Cash in policy</b>	<b>2%</b>	<b>7%</b>
<b>Keep policy – stop payments</b>	<b>1%</b>	<b>2%</b>
<b>Other*</b>	<b>7%</b>	<b>12%</b>

\*Other actions include contact provider / ombudsman about seeking a redress, change mortgage

*Note: The figures in the table add to more than 100% as some policy-holders mentioned more than one action they had or were likely to take*

4.9 The main difference between action already taken and action likely to be taken in the future, was that up until now people had mainly been seeking advice, but in the future planned to take more specific action.

4.10 The main actions policy-holders had or were likely to take were as follows. Similar proportions of policy-holders were likely to take these **actions**:

- Start an additional savings scheme;
- Make extra capital payments;
- Change part of their mortgage to repayment mortgage;
- Increase contributions to their existing policy.

There were no significant differences in the action policy-holders receiving red or amber letters were likely to take.

4.11 Only 2% had cashed in their policy and a further 7% were likely to in the future.

4.12 4% spontaneously mentioned talking to a provider or ombudsmen about seeking compensation or making a complaint.

4.13 A third of policy-holders who were taking action (36%) were taking action based on advice or information they had obtained. This proportion was slightly higher among those receiving red letters (41%).

4.14 The re-projection letter was a key source of the information. Other sources included financial advisers and their mortgage or policy provider. The media was also a key source of information, particularly amongst policy-holders who received green letters.

<b>Main sources of information/Advice</b>	<b>% of respondents</b>
Base: (All taking action based on advice or information received)	146
Letter	32%
IFA (Independent Financial Adviser)	24%
Media	11% (green 25%)
Mortgage provider	8%
Policy provider	8%

- 4.15 The results to a further direct question on who they had discussed their situation with, confirmed that only about a quarter of policy-holders were seeking advice from a professional or provider. Again this proportion was higher amongst those who received red or amber letters (cf 44%) and/or who have already taken action (41%) but was still only 2 in 5 policy-holders.
- 4.16 Overall 59% of policy-holders discussed the letter and their situation with someone else (65% red). In most cases this was with more informal sources such as the joint policy-holder, partner, friend or relative.
- 4.17 Only 5% of policy-holders had spoken to their endowment provider or their endowment provider helpline (this was number given in the letter). We did not ask policy-holders directly why they had not asked their endowment provider, but it could be suggested that, at least in some cases, they blamed them for their situation and did not trust them sufficiently anymore, or that they thought they would just encourage them to increase their contributions to the policy.

Who discussed issue of endowments with	% of respondents
<b>Base: (All spoken to someone about endowment</b>	<b>361</b>
<b>Joint policy holder</b>	<b>44%</b>
<b>Friend/Colleagues</b>	<b>17%</b>
<b>Relative</b>	<b>16%</b>
<b>Independent financial adviser</b>	<b>16%</b>
<b>Partner</b>	<b>15%</b>
<b>Mortgage provider</b>	<b>9%</b>
<b>Other financial adviser</b>	<b>7%</b>
<b>Endowment policy provider</b>	<b>4%</b>
<b>Bank/Building society</b>	<b>2%</b>
<b>Endowment provider's helpline</b>	<b>1%</b>
<b>Other professional, ie accountant, solicitor</b>	<b>1%</b>
<b>FSA</b>	<b>*%</b>

*Note: The figures with the table add to more than 100% as some policy-holders spoke to more than one person / organisation*

*Note: Asterix indicates <0.5%*

- 4.18 Most (86%) of policy-holders who spoke to a provider or professional were satisfied with the response or information they obtained from them. Those who were not satisfied mainly complained that they did not provide them with sufficient additional information to help them decide what to do next.

## Reasons for not Taking action

- 4.19 The next section examines the reasons why some policy-holders had not or were not likely to take action. It looks in detail at the projected shortfall on these policies and whether there was any relation between this and investor's unwillingness to take action.
- 4.20 Overall, just under half (45%) of all policy-holders were not likely to take action. As might be expected, these were mainly policy-holders who received green letters.
- 4.21 Three in ten of those receiving red or amber letters (29% red/34% amber) were not intending to take any action. Just over half (59%) of those receiving green letters felt no action was necessary. It would appear worrying that those with red or amber letters were taking no action, however when examined in detail their reasons for not doing so were valid and it is not largely due to a lack of understanding of the letter or complacency, particularly amongst those receiving the red letter.
- 4.22 The table below outlines in detail the reasons why those receiving red or amber letters were taking no action. The most frequently mentioned reason, was that they did not feel it was necessary to take action. Most of these policy-holders had received amber letters (only one had received a red letter). Those receiving amber letters may well have been in two minds as to whether they needed to take further action, as the plan showed there would be surplus at least at the highest (8%) return and the letter only suggests they "may wish to think about taking action". However it is possible that some of these policy-holders, as well as the 10% who stated that they were not taking any action because the letter showed their policy was on target, did not fully understand the plan.

Other policy-holders in this group specifically mentioned that the shortfall was only small or they could cover it from other means such as other savings or policies held, or the mortgage had been paid off. We also know from answers to a direct question on the extent of the shortfall, that this group of policy-holders faced significantly lower shortfalls on average than those policy-holders who received red or amber letters who had or intended to take action.

- 28% had a shortfall of under £1,000 (compared to 10% who had or intended to take action)
- 8% had a shortfall of more than £10,000 (compared to 23% who had or intended to take action)

Reasons for not taking action	% of respondents
Base: Received red or amber and not taking action	96
No action necessary	30 (1 red)
Letter shows policy on target	10 (3 red)
Shortfall small	10
Cover from savings	6
Short time left on policy	4
Wait and see	9
Need further advice	6
Other (Incl. Can't afford to increase payments, Expect to move to a cheaper property, no longer have original mortgage, already paid off mortgage.)	31

*Note: figures in the table add to more than 100% as some policy-holders gave more than one reason for not taking action*

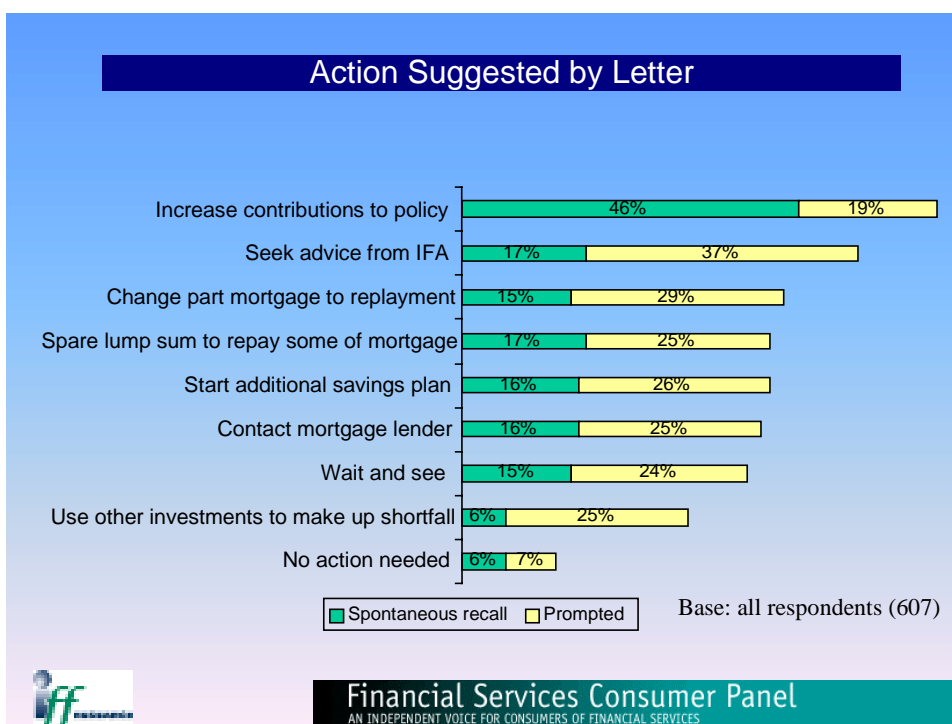
## 5 Understanding/Effect of the Letter and Process

- 5.1 The next section looks at policy-holders understanding of the letter and re-projection process. The letter was designed to not only tell policy-holders whether their policy was on target or not, to pay off the mortgage in full, but also to suggest what action they might take and to encourage, particularly those who received red or amber letters, to take action/advice immediately rather than put it off. The research therefore examined the reasons why policy-holders felt they had been sent the letter, what actions the letter was suggesting they should take, if any, and how urgent it was that this action was taken. It also examined policy-holders views of the letter.
- 5.2 The majority (89%) of policy-holders knew why providers had sent them the letter. Spontaneously mentioned reasons included:
- Told to by the government/regulator in response to the situation (16%);
  - To advise of the situation so policy-holders could take action if necessary (51%);
  - In response to media coverage (13%).

- 5.3 Policy-holders obviously recognised the importance of the letter because 84% had kept it and a third had referred to the letter again since receiving it. (46% of those taking action. The comparative figure from the research conducted amongst policy holders who received the first letter telling them about re-projection exercise was 73% who kept the letter and 17% who referred to it again.
- 5.4 Half of policy-holders felt the letter suggested something they might do. As might be expected this figure was significantly higher amongst those receiving red or amber letters (Green 35%, Amber 74%, Red 71%).
- 5.5 Spontaneously, most mentioned that the letter suggested they increase contributions to the policy. When prompted the proportions mentioning other forms of action such as seeking advice from an IFA, changing part of the mortgage to a repayment mortgage were much higher.

The high proportion of policy-holders spontaneously mentioning the letter suggested increasing contributions to their policy does not suggest, however, that policy-holders were in fact persuaded to take this particular course of action since, as discussed in section 4, policy-holders were as likely to take other forms of action such as changing part of their mortgage to a repayment mortgage as they were to increase their contributions to their existing policy.

However it does perhaps highlight the importance of policy-holders obtaining good advice as to which form of action best suits their situation.



5.6 The survey also asked if the letter suggested they should take action and if so how urgent it was that they do so. The majority of policy-holders who received red and amber letters (75% and 65% respectively) felt the letter suggested they should take action, or least advice now. Few policy-holders who received red letters (8%) felt the letter suggested they could afford to wait and see what happened. This proportion was higher amongst those receiving amber letters (23%), which was to be expected as this was one of the suggested options for this group (it was not suggested to policy-holders receiving red letters).

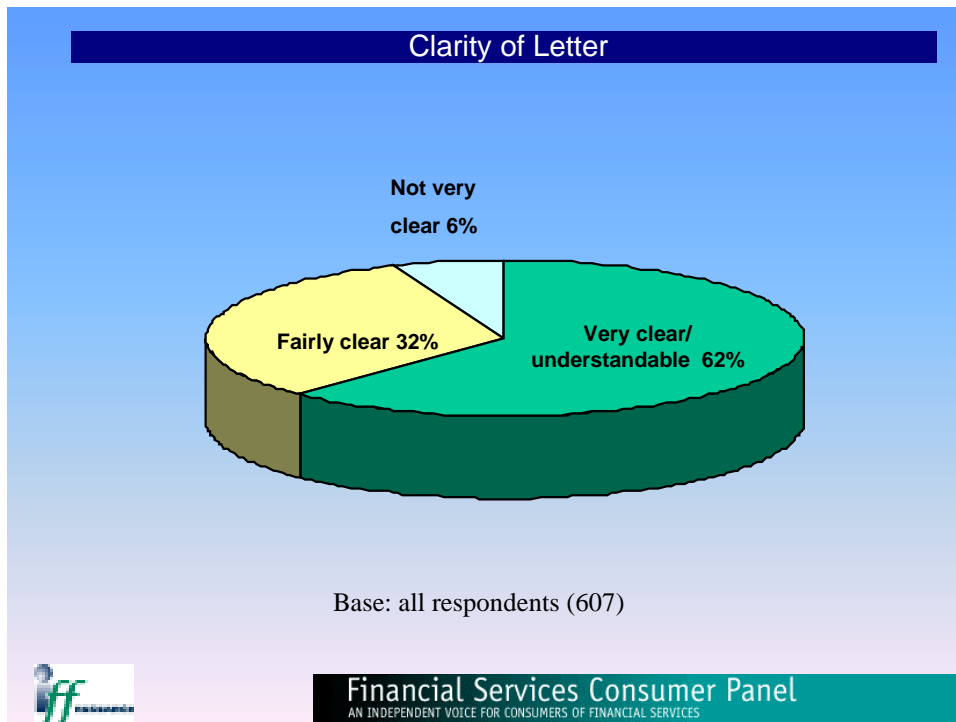
Most of the policy-holders saying the letter suggested no action was required, received green letters. Only 1 in 10 policy-holders who received red or amber letters felt the letters suggested no action was required. It includes 1 in 5 of those who received red or amber letters and were not intending to take any action. As discussed earlier, this included policy-holders who had a 'valid' reason for not taking action,(e.g because the shortfall was very small, they had paid off part of their mortgage, they had other savings) but also included the small proportion of policy-holders (mainly those receiving amber letters) who were confused as to whether action was required or not.

Letter suggested I.....	Total	Red	Amber	Green
<b>Base: All respondents</b>	<b>607</b>	<b>73</b>	<b>273</b>	<b>261</b>
<b>Should take action immediately</b>	<b>18%</b>	<b>45%</b>	<b>23%</b>	<b>5%</b>
<b>Should at least take advice now</b>	<b>30%</b>	<b>30%</b>	<b>42%</b>	<b>17%</b>
<b>Could wait and see what happens</b>	<b>17%</b>	<b>8%</b>	<b>23%</b>	<b>13%</b>
<b>Need do nothing at all</b>	<b>32%</b>	<b>10%</b>	<b>10%</b>	<b>62%</b>

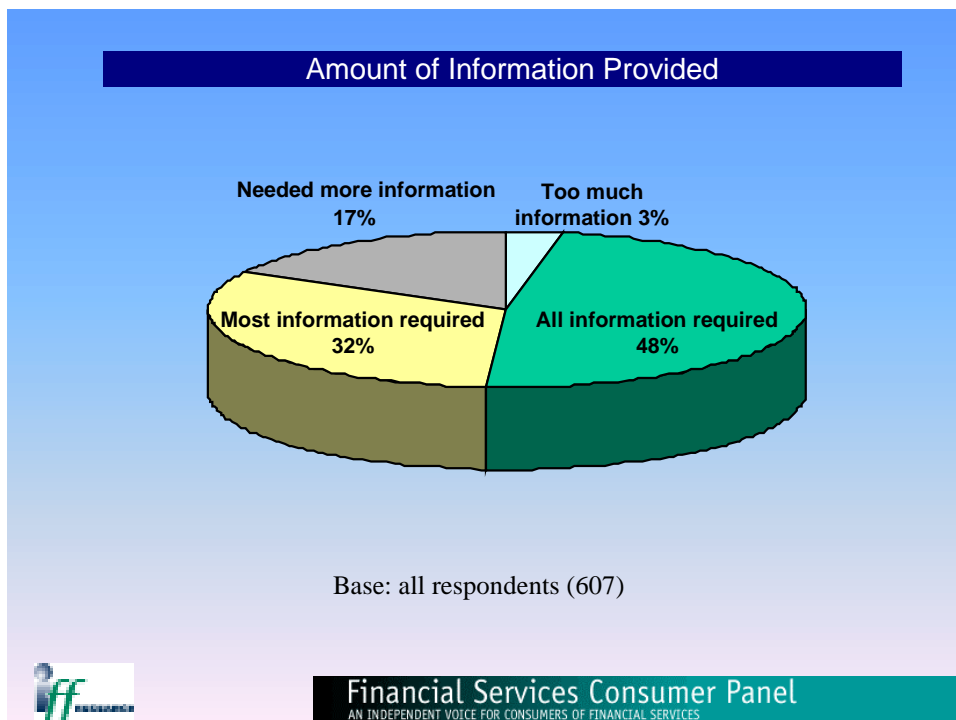
## Views of the Letter

5.7 Generally, policy-holders found the letter clear and easy to understand, with only 6% experiencing real difficulties. Some complained about the use of financial jargon. The letter contained little or no financial jargon, but it needed to be recognised that terms such as 'surplus' or 'shortfall' may not be familiar to some policy-holders because they were not terms they would come across in their everyday lives. A small number of policy-holders who mainly received red and amber letters specifically mentioned that they did not fully understand these terms. These terms were explained more fully in the accompanying booklet but not in the letter and plan document itself.

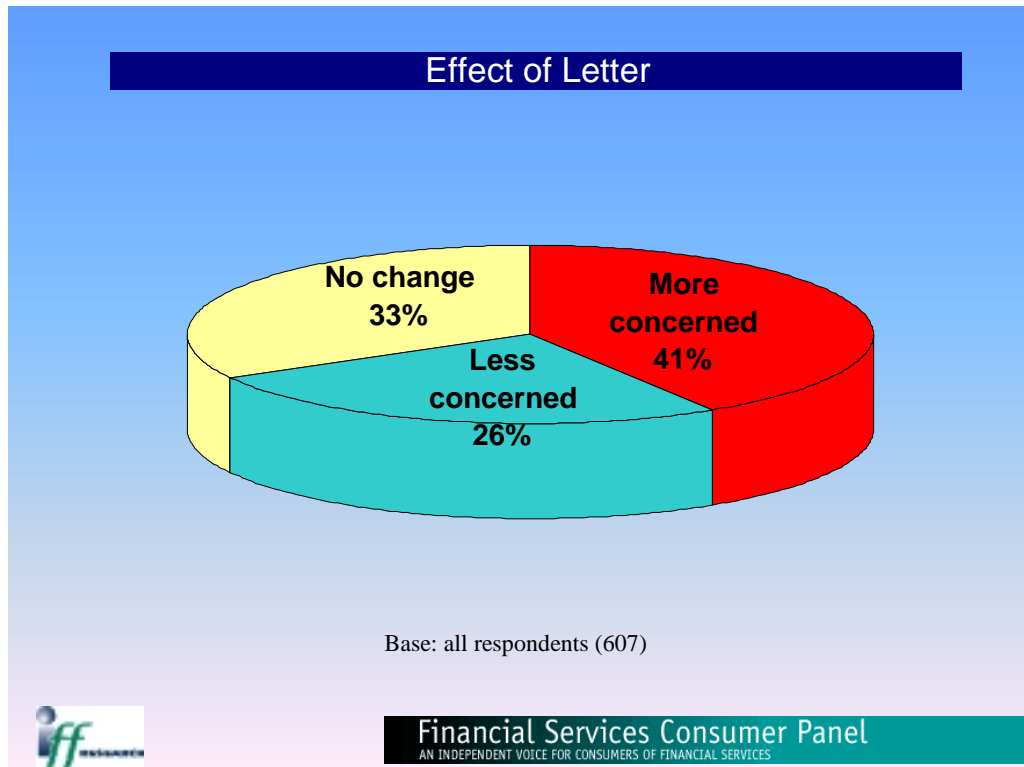
A few policyholders, again mainly those receiving amber and red letters, complained that the letter did not make it clear enough about what they should do next.



- 5.8 The majority of policy-holders also felt that the letter provided all or most of the information required (80%). Less than 1 in 5, (17%) felt they needed more information. These were more likely to be those receiving red or amber letters, who felt the letter should have provided more specific guidance as to what they should do next.



- 5.9 As discussed at the start of this chapter the letter was designed to alert people to their situation and to encourage them to take action where necessary – but not to panic them. The letter generally had the desired effect of heightening concern among some policy holders (41%), especially among those who received red or amber letters (Red 67%, Amber 52%), without alarming a significant number of those who received green letters (22%).



- 5.10 The main reasons why policy-holders said the letter heightened their concern were:
- They thought they would be okay – but now know they won't be – (40%);
  - They thought they would be okay – but now are not sure – (30%) (mainly those receiving amber letters);
  - The letter showed it was a bigger issue than they thought – (13%);
  - They were concerned about meeting the shortfall – (7%).
- 5.11 The main reasons policy-holders gave for why the letter alleviated their concern were:
- I know my policy is on target - (57%) (mainly green but included 24% amber and 2 red);
  - I now know where I stand – (38%) (red or amber 70%);
  - I now understand more about it – (4%).

## 6 Understanding of the reasons for re-projection exercise

- 6.1 Finally the study examined what policy-holders felt was the reason for the re-projection exercise, what they were told about the risks during the sales process and how they felt towards the company and advisers who sold them the policy, given their current situation.

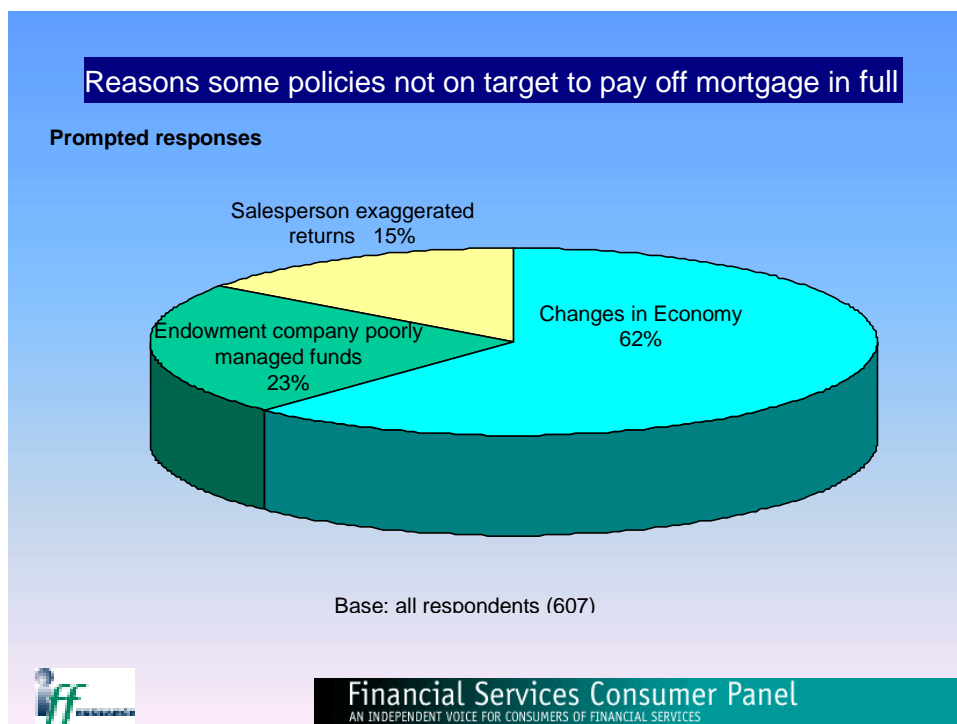
### Understanding of the reasons for the shortfall

- 6.2 Respondents were asked spontaneously and then on a prompted basis what they felt were the reasons why some policies were not on target to pay the mortgage off in full.

Spontaneous responses can be broadly categorised into 3 groups:

- About a quarter of policy-holders (26%) felt the reason for the shortfall was that endowment providers/sales people had exaggerated the returns that could be achieved, although only 4% specifically mentioned they felt some policies had been mis-sold.
- Over half of policy-holders (59%) recognised that the problem had arisen because of economic changes and that in the future rates of return were likely to be lower.
- One in five policy-holders (19%) felt it was because the endowment companies had not managed the funds sufficiently well and this was the reason why returns would be lower.

The results to the question when prompted, closely mirror the spontaneous comments:



6.3 When asked more generally about how they felt about the issue of endowments and the possibility that for some people this will not yield sufficient monies to pay off the mortgage in full, the proportion of policy-holders who spontaneously mentioned they felt that providers had not been entirely honest and had exaggerated returns was over a third (36%). A further 10% felt angry and disappointed. Only one in six policy-holders mentioned that they understood that endowment policies like any other investment carried some risk. These were more likely to be policy-holders in the higher socio-economic groups.

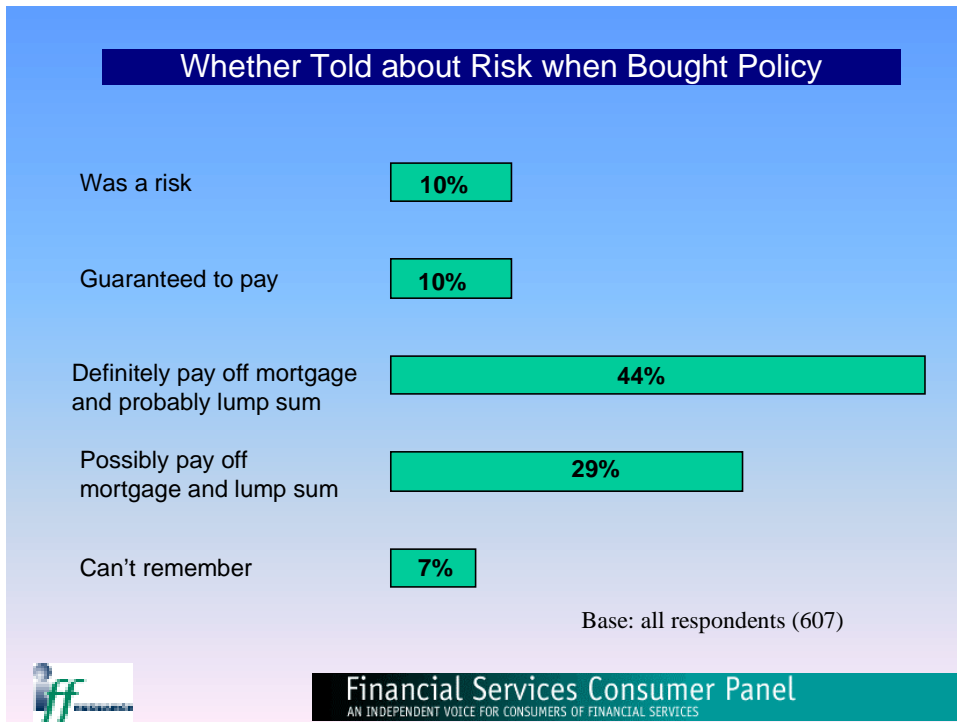
Feelings regarding issue of endowment mortgages	Socio-economic Group				
	Total	AB	C1	C2	DE
<b>Base: All respondents</b>	<b>607</b>	<b>163</b>	<b>210</b>	<b>167</b>	<b>66</b>
<b>Companies who sold policies mislead policy holders/were not entirely honest</b>	<b>36%</b>	<b>30%</b>	<b>42%</b>	<b>33%</b>	<b>37%</b>
<b>Concerned for those badly affected</b>	<b>22%</b>	<b>17%</b>	<b>23%</b>	<b>30%</b>	<b>15%</b>
<b>Have to accept it as all investments are a risk/knew there would be an element of risk</b>	<b>14%</b>	<b>17%</b>	<b>15%</b>	<b>10%</b>	<b>10%</b>
<b>Not worried or concerned</b>	<b>12%</b>	<b>10%</b>	<b>10%</b>	<b>14%</b>	<b>15%</b>

6.4 Respondents were then asked directly what they recalled being told about the risks involved in taking out an endowment, when they originally bought the policy. It is important to remember when interpreting these results that 49% of respondents took their policy out over 10 years ago and only 5% did so in the last 4 years.

6.5 It is also worth noting that most policy-holders did not shop around, but relied on the advice of just one adviser. In under a third (29%) of cases was this an independent financial adviser. Most policy-holders just went to their mortgage or endowment provider (65%)

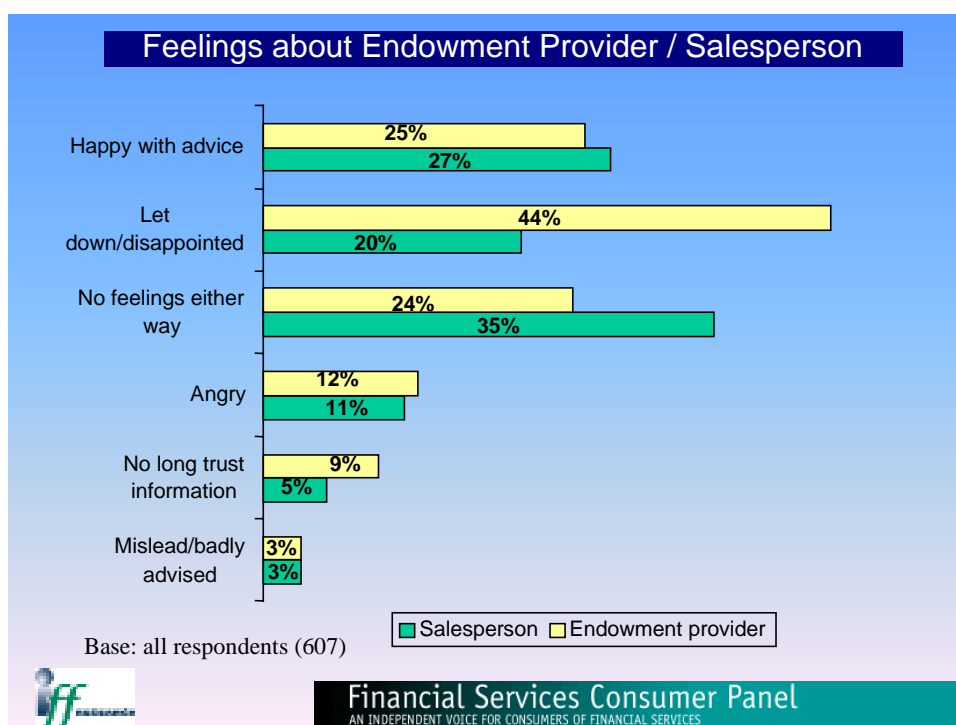
6.6 Only 10% of all policy holders claimed to have been told initially that there was a risk involved in taking out the policy. These were most likely to be policy holders who took the policy out more recently, since 1990 (46%)

6.7 On the other hand only one in ten policy-holders claimed they were told the policy was guaranteed to pay off the mortgage. However almost half of policy-holders felt they were told that the policy would definitely pay off the mortgage and probably leave a lump sum on top. These policy-holders were slightly more likely to have taken out the policy in the years between 1980 and 1988 (57%). Those policy-holders who were told there was a risk the investment might not pay off the sum needed were more likely to have taken out the policy from 1989 onwards.



- 6.8 Finally respondents were asked how they felt towards the endowment provider and sales adviser who sold them the policy given the current situation they find themselves in.
- 6.9 Overall about half of the policy-holders surveyed felt happy with the advice they received from the endowment company or had no strong feelings either way. As might be expected, these were much more likely to be policy-holders who received a green letter (56% compared with 39% of policy-holders who received an amber letter and 29% who received a red letter)

Those who received a red or amber letter and those who claimed that the firm told them the policy was guaranteed or would definitely pay off the mortgage were more likely to have felt let down, disappointed or angry. However these feelings were directed more strongly at the endowment provider than the sales person.



## Appendix 1: Screener and Questionnaire