

## **The complaint**

Mr T and Mrs T are complaining about the surrender value they received from The Prudential Assurance Company Limited when they cashed in their investment.

## **What happened**

In April 2018, Mr and Mrs T invested £19,800 into a Prudential investment plan.

On 16 March 2020, Mr T asked his financial advisor to let him know the surrender value of the investment. The financial advisor looked online and told him the value was a little over £21,000. In response, Mr T decided to cash in the investment and sent a form into Prudential by post on 18 March 2020. But when he received the proceeds, the amount was around £19,000. When Mr T's financial advisor questioned this, Prudential told him that the unit price of the investment had been reduced on 20 March 2020. Mr T feels that he and his wife should have been given the choice to stop their surrender given there was such a large reduction in an investment that was described as cautious.

In their final response to Mr T's complaint, Prudential said they processed the surrender in line with the terms of the policy and using the unit price on the date it was received. They explained that a unit price adjustment (UPA) had been applied to the fund effective 20 March 2020 and that was what had caused the reduction in surrender value. They said the terms and conditions allowed them to apply UPAs without informing policyholders in advance. So, they said they hadn't done anything wrong.

Prudential added that it's not practical for them as an organisation to contact all policyholders individually to check whether or not they want to proceed with an instruction.

Mr T brought the complaint to our service as he wasn't happy with Prudential's response. He described the adjustment as a penalty and said it wasn't fair for Prudential to take this money from him.

Our investigator looked into Mr T's complaint but didn't uphold it. She said that, in making the UPA, Prudential had acted in line with the terms of the fund. While she acknowledged it was unfortunate for Mr T, she didn't think Prudential had acted unfairly. Mr T wasn't happy with this and asked for an ombudsman to look at his complaint – so it's come to me.

## **What I've decided – and why**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Although I appreciate it will be disappointing for Mr and Mrs T, I'm not upholding their complaint. I know they feel they've lost around £2,000 as a result of Prudential's actions, but I'm satisfied Prudential haven't acted unfairly – I'll explain why.

Prudential publish a leaflet which explains how their funds are managed. This describes the “smoothing process”, where an expected growth rate (EGR) is set once per quarter and the unit price usually grows smoothly at that rate.

It also explains that Prudential also track the “unsmoothed” price of the fund – which is the total market value of the fund divided by the total number of units in the fund. If the smoothed price is higher than the unsmoothed price, there wouldn’t be enough money in the fund to pay out if all unitholders surrendered their investments at the same time. The leaflet describes the process for a UPA which can happen when there’s a significant gap between the smoothed price and the unsmoothed price:

*“We may decide to reset the smoothed price of a ...fund on a particular day, to protect [the fund].*

*If we decide to reset, the smoothed price of the affected fund would be adjusted to be the same value as the unsmoothed price on that working day.”*

In mid-March 2020, financial markets fell significantly as a result of the coronavirus outbreak. This meant the unsmoothed value of the fund fell dramatically and Prudential needed to implement a UPA to protect the fund.

UPAs normally happen at quarter dates (25 February, 25 May, 25 August and 25 November) and it’s rare for them to happen between. When I looked at the history of UPAs for this fund I can see that there hadn’t been any between quarter dates in the last ten years. So I can understand why Mr T and his financial advisor weren’t expecting any significant movement in the surrender value - they requested the surrender well in advance of the next quarter date.

But the terms and conditions allow Prudential to make a UPA at other times too when necessary. And it’s clear that they needed to do this in March 2020 due to the significant movements in the market at the time. Whilst I appreciate it was unexpected I don’t think it was completely unforeseeable given the circumstances.

The timing of this UPA was really unfortunate for Mr T. He sent his surrender request in on 18 March and it was received and processed by Prudential on 20 March – applying the 20 March price.

Prudential have shown us what the financial advisor would have seen when they requested the surrender value for the units. The screen would have said: *“The values are not guaranteed. They are based on previous day’s unit prices and are only intended to give an indication of the actual value.”* Similarly, the form signed by Mr and Mrs T to request the surrender states: *“If we receive all the relevant completed paperwork by mid-day on a working day, we’ll normally process it at the price determined later that day; if we receive it after mid-day, we’ll normally process it at the price determined on the next working day.”*

Based on this, I think it’s clear that Mr T couldn’t expect to receive exactly what he’d been quoted as a surrender value. And I think he’d have known he’d receive the price set on or around the 20 March – just not what that price would be.

Taking all this together, I’m satisfied Prudential acted fairly in applying the UPA when calculating the surrender value for Mr and Mrs T’s units.

Mr T’s also said Prudential should have called him and given him the option to change his mind when they knew the UPA would reduce his surrender value by 10%. I can understand this perspective. But it’s not a regulatory or contractual requirement. And Prudential have said it wouldn’t be practical given the number of customers they have. I’m satisfied this is the case – Prudential would have had to contact a very large number of customers in a very

short space of time and this would likely have had an impact on their ability to meet other contractual and regulatory requirements. So it wouldn't be fair or reasonable for me to say Prudential should have contacted Mr T.

### **My final decision**

As I've explained above, I'm not upholding Mr and Mrs T's complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T and Mr T to accept or reject my decision before 10 March 2021.

Clare King  
**Ombudsman**