

The complaint

Mr and Mrs M complain that The Prudential Assurance Company Limited (“Prudential”) have paid less than they were projected to receive upon the maturity of their mortgage endowment policy.

What happened

Mr and Mrs M took out a with-profits mortgage endowment policy with Prudential in April 1999. It matured in April 2020, and they said they were told a month prior that they were due to receive £61,312.72. However, Mr and Mrs M were unhappy because upon maturity they were paid around 5.5% less than this amount.

Prudential explained that the projected value was not guaranteed, and that it ultimately wasn’t achieved because of the difficult market conditions experienced at the time the policy matured.

Our investigator didn’t uphold the complaint, as he was satisfied with Prudential’s explanation, and also noted that Mr and Mrs M had been told that the maturity value was not guaranteed. Mr and Mrs M disagreed, so the matter has been escalated to me to determine.

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.

Having done so, I agree with the conclusions reached by the investigator and have decided not to uphold it.

Mr and Mrs M have complained because in March 2020 Prudential estimated that they would receive an amount of £61,312.72 upon maturity, only to eventually receive £3,340.93 less than this.

I think it’s important to point out that this isn’t money that has been taken away from Mr and Mrs M’s plan or redistributed. This is because the amount of £61,312.72 was a *prospective* value that Prudential would’ve anticipated they could achieve (in other words, it was an estimate). It was never money that was in the plan all along that has been clawed back at the last moment; it is just that the anticipated value wasn’t achieved. So I don’t consider it to be the case that £3,340.93 has been lost and that Prudential ought to explain where it has gone.

A share of Mr and Mrs M’s plan’s final value would have been accounted for by a terminal bonus. But whereas annual bonuses are guaranteed the terminal bonus was not. And I can see that Prudential made it clear in their letter of March 2020 that the value quoted was only an estimate and wasn’t guaranteed, as well as the fact that the final bonus rate could change:

“The estimated amount payable...will be £61,312.72. The value is given as a guide

only and cannot be guaranteed. The actual amount payable will be calculated as at the maturity date. Please remember that unit prices go up and down, so the value may be higher or lower than the figure quoted.

Final bonus rates are regularly reviewed so the rate we use to determine your maturity payment may not be the same as was indicated in your yearly statement".

So although Prudential quoted £61,312.72, they are not obliged to pay this, and I can see they've made this clear to Mr and Mrs M. In terms of the factors that caused the value to fall, Prudential have explained that the prevailing difficult market conditions at the time of maturity was they key reason for the fall in value. And I note this was around the time that markets were particularly volatile and had fallen in response to the Coronavirus pandemic and the country being placed into lockdown.

I appreciate Prudential may not have gone into a great amount of detail about all the other various factors that can affect the final maturity value. But this can depend on a number of things, such as the cost of the insurance business, the value of the underlying unit prices, as well as the need to 'smooth' bonuses from year to year (where some of the profits are held back during good years to boost the profits during the bad years to avoid drastic fluctuations). I also wouldn't have expected Prudential to have disclosed a complex or detailed breakdown of their actuarial calculations to show how they arrived at the final maturity value. So I think it was reasonable enough of them to explain that adverse investment conditions had been the predominant reason for the fall in value, and I've also not seen any persuasive evidence to suggest that the fall in value was due to any negligent mismanagement of the fund.

I can also see that Prudential explained to Mr and Mrs M in their policy illustration that the final value of the plan could rise as well as fall, and that it would be dependent on how the investment grows. So, the fact that the final maturity value was lower when calculated at the point of maturity does not mean that Prudential have treated Mr and Mrs M unfairly or have deprived them of their money – it is simply a result of the market/fund conditions prevailing at that moment in time. So, in the circumstances, I will not be asking them to do anything further.

My final decision

For the reasons given above, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs M to accept or reject my decision before 16 April 2021.

Jack Ferris
Ombudsman