

The complaint

Mrs C and Mr C complain that The Prudential Assurance Company Limited incorrectly calculated the annual management charge (AMC) and further charges applied to their investment bond in June 2020.

What happened

When Mrs C and Mr C received their 2020 investment bond statement from Prudential, the current cash in value of the bond was shown as £244,882.41. The statement highlighted the AMC for the with-profits fund was 1.25%. And there was a further cost of 0.15%. There were also separate AMC's and further costs highlighted for other funds in the investment bond. There was a final bonus figure that wasn't guaranteed, along with a market value reduction figure (MVR) Prudential were applying at that time.

Mrs C and Mr C complained to Prudential about the MVR and how the AMC and further costs had been calculated on the with-profits fund. Prudential provided a further explanation of the MVR by way of a leaflet and letter. They explained the further costs charge was an implicit charge that had always been part of charges on a statement but said the way they'd laid the charges out had changed. Prudential apologised for the confusion the information may have caused and offered to pay Mrs C and Mr C £150.00 to recognise this.

Mrs C and Mr C raised a concern that the further charges figure of £337.76 on their annual statement was wrong. Prudential provided a response and explained how the further charges were calculated and that the difference was a rounding of the charges.

Mrs C and Mr C complained that the AMC in the June 2020 statement appeared to be based on the current fund value excluding the final bonus. But from later documents Prudential had sent them it appeared to be based on the cash in value of the investment. They questioned whether Prudential was detailing one AMC on the statement but then charging more. And they felt Prudential were inflating the actual charges on the investment bond.

Prudential provided a final response to Mrs C and Mr C's complaint. They accepted they should've explained the charges and how they were calculated earlier than they did. Prudential apologised and offered a payment of £350 in total for the distress and inconvenience this caused Mrs C and Mr C. They also explained they'd provide feedback about Mrs C and Mr C's comments in respect of the information in the annual statement. Prudential acknowledged Mrs C and Mr C didn't want the payment of £350, but instead wanted the additional AMC charges they'd paid over the years to be refunded.

Mrs C and Mr C brought their complaint to our service where one of our investigators looked into things for them. Our investigator thought that the information contained in the annual statement wasn't incorrect but understood why it could've been misinterpreted. And that Prudential's offer of £350 was a fair and reasonable one.

Mrs C and Mr C didn't agree with our investigator and asked that an ombudsman decides their complaint. The complaint has now been passed to me to consider.

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.

I understand Mrs C and Mr C will be disappointed but for very much the same reasons as our investigator I consider the offer made by Prudential is a fair and reasonable one. And that the AMC and further charges may have been open to misinterpretation, but they are in line with the charges Prudential said they would take. I will now explain why.

Prudential have already accepted they could've provided an earlier explanation about the MVR, AMC and further costs. So, I won't be dealing with this matter in my final decision. Instead, I will address the crux of Mrs C and Mr C's complaint that Prudential incorrectly expressed the AMC on the annual statement. And that Prudential should've used the current value recorded in the June 2020 statement.

I've seen the current value of the with-profits fund in June 2020 was recorded as £164,855.47, but this didn't include the final bonus, nor any MVR Prudential said it was applying at the time. The actual value including the final bonus and MVR was £210,182.16 and was calculated as follows:

£164,855.47 plus £55,276.94, less £9,950.25 = £210,182.16*.

In respect to how Prudential express the AMC on the with-profits element of the investment bond, the statement explains: *"A charge is deducted from the With-Profits Fund each year ... The charge is not explicit so you won't see it being taken from your plan. It's deducted from the underlying With-Profits Fund each year and is already taken into account when we calculate Bonus Rates for our With-Profit Fund. The {AMC} in the table above [£2,992.47] is an approximated value for this statement period only and may vary in the future..."*

I consider the above extract explains the value Prudential used to calculate the AMC is the current value including the final bonus, less the MVR. This is then reflected in the total cash-in value of the investment bond was £244,882.41 as follows:

With-profit value (£210,182.16) plus the other unit-linked funds (£34,700.25) = £244,882.41.

If I use the with-profits cash-in value* and apply the 1.25% AMC Prudential detail in the statement, this equates to an AMC for the with-profits element of £2,627.30. Of course, as Prudential have explained, this is only an approximation because the charge isn't explicit. If I then consider the AMC charges on the other unit linked funds amount to £347.01 (taken from the statement), this gives a total AMC for the investment of £2,974.29. So, I'm satisfied the figure of £2,7992.47 within the 2020 statement was a reasonable assessment of the AMC's applied during the year.

For completeness, I also looked at the future charges section of the statement. And I can see the figure Prudential included in the statement (£337.76) is within the same margin as the AMC figure. And, allowing for the approximation I've referred to above, I consider this is also fair and reasonable.

I can see that Mrs C and Mr C felt the AMC calculation based on an alternative cash-in value would equate to 1.50%, but the value they referred me to is the current value and not the cash-in value on the statement. And the current value didn't include the final bonus applying at the time. So, for the reasons I've provided above, I'm satisfied the alternative figure isn't the figure on which to assess the impact of the AMC and further costs.

I don't consider Prudential intended to mislead Mrs C and Mr C about the charges it applied to their bond. And I've not seen anything to persuade me Mrs C and Mr C have been overcharged. Prudential did make an offer to pay Mrs C and Mr C £350 to reflect a delay in providing clarity about the charges in the statement. This reflected that Mrs C and Mr C had to make a number of telephone calls and send several secure communications to Prudential before they received an explanation. And that for several months Mrs C and Mr C were concerned about the impact the charges could've had on their investment.

My final decision

The Prudential Assurance Company Limited has already made an offer to settle the complaint and I consider this offer is fair in all the circumstances. So, my final decision is that The Prudential Assurance Company Limited should pay Mrs C and Mr C £350.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C and Mr C to accept or reject my decision before 24 November 2021.

Paul Lawton
Ombudsman