

The complaint

Mrs C's complaint concerns a 'guarantee charge' applied to her 'Prudential Initial Charge Bond' (the 'bond') with The Prudential Assurance Company Limited ('Prudential').

Mrs C is represented by Mr C. For ease of reference, all references to 'Mrs C' (the complainant) will include submissions and evidence provided by her representative, Mr C, acting on her behalf.

What happened

The background to this complaint was set out in my provisional decision, so I won't repeat that again here. Instead I'll concentrate my decision on the findings of this case.

Mrs C didn't respond to my provisional findings. Prudential responded saying it had nothing further to add.

So, the matter has been passed back to me for a final decision.

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.

As neither party has provided any new evidence to my provisional findings, my decision remains that I don't uphold this complaint.

The reasons for this were set out in my provisional decision. The relevant extract from my provisional decision which now forms part of my final decision, is as follows:

The bond was taken out a long time ago and Prudential has confirmed it does not hold point of sale documents from 1994. But Prudential has confirmed that this guarantee charge has always applied to the with-profit fund but wasn't reported to investors until 2018. At this point, following the Financial Conduct Authority's review about the fair treatment of long-standing customers within the life assurance sector, Prudential reviewed its annual benefits statements. Some of the changes it made focused on being more transparent about the charges it applies.

So, Prudential says the amounts now showing in Mrs C's statements aren't new charges. It also says the guarantee charges aren't specific deductions to her plan. Rather this is a fund related charge and will be taken into account as part of regular and final bonus calculations. Prudential says the amount shown in Mrs C's statement is 'indicative' of the charge that will be applied to the fund. And only shown in more recent statements as part of the requirement to be more transparent to investors.

Because the plan has certain guarantees such as there will be no market value reduction on the death of a bond holder, there is a charge for this and other guarantees. Nonetheless,

I can understand why this has caused Mrs C concern. From what I can see Prudential hadn't provided any context as to why this charge started to appear on statements or in its KFD. I can see that a recent KFD from 2020 does refer to it where it says:

"There is a charge to pay for all the guarantees the With-Profits Fund supports. We guarantee not to apply a Market Value Reduction (MVR) when payments are made because of death. Our current MVR practice, which is not guaranteed, may include additional circumstances when an MVR is not applied. Please see "Market Value Reduction" for more details.

The total deduction for guarantee charges over the lifetime of your bond is not currently more than 2% of any payment made from the fund. Our charges may vary in the future and may be higher than they are now. Charges may vary if, for example, the long term mix or type of assets held within the With-Profits Fund is changed.

We take this charge by making a small adjustment to regular and final bonuses."

An almost identical explanation appeared in Mrs C's July 2019 and 2020 annual statements, which prompted her to complain.

From what I can see, the guarantee charge explanation, doesn't appear in earlier documents provided by Prudential to this service. The earliest terms and conditions document Prudential could provide is dated 2001. I can't see any mention of the guarantee charge in this document. However, this doesn't mean it hasn't always been applicable to the with-profits fund. I think it's more likely than not, given the guarantees which apply to the plan, this charge has always been applicable in certain circumstances, but has only recently been made explicit following the regulator's thematic review.

I appreciate this is far from ideal, but I don't think Prudential is incorrect to place a charge for the guarantees the plan comes with. And I don't think just because it wasn't explicitly set out in its earlier terms that it cannot now apply the charge. From what I've seen, Prudential has carried out the management of the fund and applied charges in a way I'd expect to see a financial business managing a with-profits fund to do. I'm not persuaded that Prudential are being unfair in applying the indicative charges to the fund when calculating the final or regular bonuses.

On this latter point, I should make clear to Mrs C that the charge hasn't been made to her specific investment. Rather the charges are made to the fund itself. The explanations in the recent KFD and Mrs C's annual statements make this clear where it says: "We take this charge by making a small adjustment to regular and final bonuses."

As Prudential has said, the charges showing in her statements were 'indicative' of the size of the charge that would be applied when the bonuses are calculated. So, as Prudential has also said, a refund can't be given to Mrs C as nothing was taken from her bond for this charge when she made the withdrawal. Instead, the level of bonuses, which aren't guaranteed, will be reduced by this indicative amount.

As I noted above, neither party has provided anything further in support of their case. So, my decision remains that I don't think Prudential has acted unfairly or unreasonably in this case.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or

reject my decision before 20 May 2022.

Rajvinder Pnaiser
Ombudsman