DRN-3588322

The complaint

Ms H's complaint is about the maturity value of an endowment policy she had with The Prudential Assurance Company Limited. She believes that her contributions, annual and final bonuses and fees were miscalculated over the lifetime of the policy, which means her maturity value should have been higher.

What happened

In 1991 Ms H took out a mortgage endowment policy with a term of 30 years, a target value of £45,000 and a monthly premium of £40.80. The policy was invested in the unitised with-profits fund.

In 2003 the policy was predicted to mature with a shortfall. Due to this, Ms H increased the premium to £100 per month from February 2004.

Approximately two months before the policy was due to mature, Prudential estimated the maturity value would be almost £66,000. This fluctuated slightly over the following month when further figures were given, but remained around that figure. However, when the policy matured on 4 September 2021, the amount paid out was slightly under £55,000.

Prudential wrote to Ms H on 9 September 2021 confirming the maturity value of the policy. It apologised for the error it had previously made in sending Ms H an incorrect estimated maturity value. The letter confirmed the number of basic units attached to the policy as 24,298.87 and that they had a unit value of £1 each.

Ms H complained shortly thereafter and asked for information about her policy. Prudential responded to the complaint on 14 September 2021. It explained that over the previous year it had been transferring policies onto a new operating system. Unfortunately, this had caused issues that impacted Prudential's ability to deal with enquiries. It offered Ms H £175 compensation for the poor service she had received.

Ms H was not satisfied with the response as she didn't consider that it had responded to various aspects of her complaint. She said that as the amount of premiums paid, confirmed in the complaint response, was a higher amount than the amount detailed in the maturity notification of 9 September 2021, the maturity value paid had to be wrong. She also didn't consider compensation of £175 was acceptable given the difference between the estimated and actual maturity values was over £11,000.

Prudential provided a further response on 14 October 2021. It apologised for the level of customer service Ms H had received and confirmed that the estimated maturity value sent in July 2021 was incorrect due to a technical issue. This was because its new system calculated the maturity value on the assumption the post-2004 premium had been paid since inception. Prudential confirmed it had corrected this error on 9 September 2021 and Ms H had been paid the right amount. Prudential sent Ms H a cheque for a further £350 compensation.

Ms H remained unhappy with the information she had been provided with and asked further questions.

On 9 December 2021 Prudential sent Ms H two letters. The first was a further final response letter in which it confirmed that the maturity letter in July 2021 that had stated the maturity value of around £66,000 was sent in error and the policy never had that value. It had corrected the mistake and sent her the correct maturity value. Prudential said that it couldn't identify any evidence of Ms H being told that no charges would be deducted from the policy, but if she had any evidence for it to consider, it would do so. In addition, it confirmed that it was sending a second letter explaining how the policy worked.

The second letter explained how premiums were invested in the fund and how bonuses were added to the policy. An explanation was given of smoothing, how final bonus rates were set and the charges and costs applied to the policy. Further information in the form of guides to the fund and bonuses was provided.

Ms H wasn't satisfied with Prudential's responses and explanations, and referred her complaint to this service.

One of our investigators considered the complaint, but he didn't recommend that it be upheld. He initially explained that it's not our role to audit an account or complete a forensic examination of calculations used to produce a maturity value. He explained how the policy worked in general terms, including the fact that Ms H's premiums were used to buy units in the with-profits fund and charges were then deducted. This, he confirmed why there was difference between the amount of premiums she had paid, and the value of the basic units detailed in Prudential's September 2021 correspondence. He confirmed that the incorrect estimated maturity value had come about because of an error that had occurred when the policy had migrated to the new operating system; because more premiums had been credited in the calculation than had been paid. He was satisfied that Ms H had been paid the right maturity value and that the £525 it had paid her was an appropriate amount of compensation for the mistake that had happened.

Ms H didn't accept the investigator's conclusions and said she believed that he hadn't read through the information she had provided. She said that that, given the premium she had been paying since 2004, the maturity value should have been higher. She also said that the evidence she had provided showed that Prudential had made errors dating back years, not just in the months before the maturity. As the investigator hadn't seen the calculation for the maturity value, Ms H didn't think that it was possible for the investigator to conclude that the calculation was accurate. Ms H asked that the complaint be passed to an ombudsman for a decision.

The investigator assured Ms H that he had read everything both she and Prudential had sent to us. He was satisfied that Prudential had explained what had happened to cause the error, what had been paid to the policy and the charges to his satisfaction. As such he wasn't persuaded to change his view and so he referred the complaint for review by an ombudsman.

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 would firstly reiterate what our investigator explained to Ms H, we don't provide a checking or audit service. If Ms H wants the maturity value checked in this way, she would need to commission a suitably qualified expert to do so.

However, when she told us that she thought the maturity value was likely to be wrong, she raised some specific points that led her to question the calculations that had been made. The most significant was that she believed the maturity value had been calculated using the wrong amount of premiums because the maturity statement set out the value of the basic units attached to the policy as lower than the amount of the premiums she had paid. This error would then, she concluded, lead to the bonuses allocated during the term and the final bonus being wrong.

It is correct that the two figures differ by several thousands of pounds, but they are not meant to be the same figure. When Ms H paid a premium to the policy it was used to purchase units. However, there were then charges and costs associated with the policy, such as management, administration and life cover charges, that were paid by the encashment of units. In addition, there is what is called a bid offer spread, where the price of units is lower at encashment, than on purchase. Given this, it would be expected that the value of the basic units attached to the policy at maturity would be lower than the amount of premiums paid into it. So I can't agree that fact indicates that the maturity value paid to Ms H was wrong.

In relation to the 9 December 2021 letter setting out the charges, it says an annual management fee of 2.75% was charged. Ms H has pointed out that this doesn't match-up with the figures contained in other correspondence. The reason the figures don't match-up is because Ms H is comparing things that are not identical. Prudential has explained that there are two types of basic unit – type A that are bought in the early years, and type B that are bought thereafter. The 2.75% charge was calculated on the value of type A units only. As such, when that charge is expressed as a percentage of the entire value of the type A and B units, as it is in the annual statements, the annual management charge is a considerably lower percentage.

Prudential has provided a detailed explanation of how Ms H's policy works along with information about the with-profits fund, and I won't repeat more of that information here. What I will say is that I have seen no evidence that the maturity value paid to Ms H was wrong or calculated incorrectly. Ms H said during the complaint that she had concerns because she'd seen no evidence that the figure had been checked. Prudential confirmed to her that the figure had been checked by its actuarial department, which would be the appropriate team for that purpose.

That said, Prudential clearly made an error when it initially gave Ms H an estimated maturity value. It explained that this was due to her policy being migrated to a new system and that system not recognising the premium change in 2004. It is unfortunatthat this happened, and that Ms H's expectations were raised about how much money she would be receiving. It is clear that this caused confusion and upset, and she should be compensated for that. Prudential sent Ms H cheques totalling £525. She has said that this doesn't reflect the circa £11,000 change in the maturity value. It is not meant to do that; it is a compensation payment for her loss of expectation and the upset that caused. I am satisfied that Prudential compensated Ms H appropriately in the circumstances. If Ms H didn't cash the cheques and she now wants to accept the compensation, she should contact Prudential for a replacement.

My final decision

My decision is that the offer made by The Prudential Assurance Company Limited was appropriate in the circumstances and I don't require it to take any further action to compensate Ms H for its error. Under the rules of the Financial Ombudsman Service, I am required to ask Ms H to accept or reject my decision before 1 December 2022.

Derry Baxter
Ombudsman